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OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

FEDERAL-STATE UNEMPLOYMENT COMPENSATION SYSTEM

A STUDY PREPARED BY THE CONGRESSIONAL RESEARCH SERVICE OF THE LIBRARY OF CONGRESS

SEPTEMBER 8, 1988

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LETTER OF SUBMITTAL

September 8, 1988

Honorable Thomas J. Downey
Acting Chairman, Subcommittee on Public
Assistance and Unemployment Compensation

Honorable Hank Brown
Ranking Minority Member, Subcommittee on Public
Assistance and Unemployment Compensation

Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman and Mr. Brown:

This report, submitted today, constitutes the Congressional Research Service (CRS) response to your joint request of January 28, 1988, requesting a study of the Federal-State unemployment compensation system.

Upon receipt of your request, a team of CRS analysts, directed by Jim Storey of the Education and Public Welfare Division, planned the research and writing necessary to provide your Subcommittee with a report that reviews the structure of the unemployment compensation system and the policy issues of current interest to Congress. This report represents the culmination of that effort.

The report first describes the background of the unemployment compensation system and how the program works. It then provides information on trends in the labor market and unemployment and measures how the unemployment compensation system has performed in the past. The report then presents a recent legislative history of the program, reviewing key changes at both the Federal and State levels.

Following these introductory chapters, the report analyzes several key policy issues: (1) the decline in the proportion of unemployed who draw benefits from the system; (2) the adequacy of unemployment benefit levels across the States; (3) the performance of the extended benefits program since its reduction in scope in 1981; (4) the financial status of the system; (5) the changing role of unemployment compensation as a governmental tool of economic policy; and (6) the role of training and employment programs in addressing problems of long-term unemployment.

We hope that this report will be helpful to your Subcommittee and to the Congress as you consider legislation in this area.

Sincerely,

Joseph E. Ross
Director

Enclosure

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January 28, 1988

Mr. Joseph E. Ross, Director
Congressional Research Service
Library of Congress
Washington, D.C. 20540

Dear Mr. Ross:

I am writing to request that the Congressional Research Service undertake a study of the Federal-State unemployment compensation system. This system has seen little structural change since its inception in the 1930s despite the sweeping changes in the U.S. workforce and the world economy since that time. There is evidence that unemployment compensation does not provide the same protection to workers that it once did, and its role as a counter-cyclical stimulus to the economy during recessions may have waned in recent years. Thus, the Subcommittee on Public Assistance and Unemployment Compensation will be considering ideas to improve and modernize the system.

The CRS study should explore some major questions that have arisen about unemployment compensation. First, why does the system pay benefits to a smaller proportion of all unemployed workers than it did in the past? Second, how have benefit limitations of the past decade affected the extent and level of compensation going to unemployed workers? Third, what problems are caused by the present method of financing benefits and administrative expenses? Fourth, how could training and employment services better serve the long-term unemployed? The study should address these questions and the possible legislative approaches to their resolution.

To meet the Subcommittee's needs, the study should be completed no later than September 1, 1988. As each phase of the study is completed, please make available to the Subcommittee staff any intermediate results. To prevent duplication, I ask that you coordinate this work with any other congressional agencies examining unemployment compensation issues.

Improving unemployment compensation is an important but difficult task. The Subcommittee will appreciate the contribution of the Congressional Research Service to this effort.

Sincerely,

Thomas J. Downey
THOMAS J. DOWNEY
ACTING CHAIRMAN

Hank Brown
HANK BROWN
RANKING MINORITY MEMBER

ACKNOWLEDGMENTS

This report was prepared at the request of the Subcommittee on Public Assistance and Unemployment Compensation of the House Committee on Ways and Means. The study was undertaken by a Congressional Research Service staff team composed of the following analysts in the Education and Public Welfare Division (EPW):

Income Maintenance Section:	Vee Burke Celinda Franco Carolyn Merck Gloria Moreno Ilene Shapiro Jim Storey
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The project manager was Jim Storey. He directed the team of analysts, all of whom participated in developing the study plan and reviewing drafts of the report. Primary authors are identified on the first page of each chapter. Ilene Shapiro prepared the glossary and bibliography. Editorial and word processing assistance was provided by Elizabeth King, Mary Anderson, Phillip Brogsdale, Tracy Byrd, Mary Coleman, Flora Dean, and Nan Hill.

Valuable comments were received from the following expert reviewers:

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Ralph Smith, Congressional Budget Office
Bruce Vavrichek, Congressional Budget Office
Wayne Vroman, Urban Institute
Steve Wandner, U.S. Department of Labor

In addition, Mike Miller of the U.S. Department of Labor provided data from the Department's trust fund forecasting model on the effects of different economic scenarios on the unemployment trust fund. Information on the financing of program administration was provided by Bob Deslongchamps, U.S. Department of Labor; Carol Hedges, National Governors' Association; Bob Knisely, House Appropriations Subcommittee on Labor, Health and Human Services and Education; and Cheryl Templeman, Interstate Conference of Employment Security Agencies.

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UNEMPLOYMENT COMPENSATION: PROBLEMS AND ISSUES

Prepared at the Request of the
Subcommittee on Public Assistance
and Unemployment Compensation
House Committee on Ways and Means

Unemployment Compensation Team
Education and Public Welfare Division
Congressional Research Service
Library of Congress

SUMMARY

The Unemployment Compensation (UC) system provides short-term income assistance to unemployed workers through a State-operated system created through Federal tax incentives. Benefits are funded by State payroll taxes deposited with the Treasury and counted as Federal revenues. Funds are made available to States to pay benefits; loans are made to cover revenue shortfalls. This report traces developments in UC since the mid-1970s, when UC was liberalized in response to a severe recession, through the 1980s, when the system was trimmed to meet Federal budget limitations and improve the State programs' financial reserves. It also discusses key policy issues.

One concern about UC has been the fall in the proportion of unemployed who receive UC benefits from 48 percent in 1970 to 32 percent in 1987. This decline accelerated during the 1980s because of Federal benefit reductions, State actions to curb spending, and shifts in the workforce away from manufacturing.

The extent to which weekly benefits replace pre-unemployment wages varies among States. The before-tax median replacement rate for average-wage workers is 50 percent, but one State has a rate as low as 35 percent. For those with unemployment spells no longer than average, UC benefits and wages together equal from 83 to 90 percent of usual earnings over a year.

The Extended Benefits (EB) program to assist the long-term unemployed was cut back in 1981, limiting the program's potential for recession help. Bills are pending to increase the availability of EB for those who exhaust regular UC benefits. Efforts to reduce long-term unemployment through training have not identified any one method that promises a universal solution. A greater emphasis on training for high-skill jobs may be needed in addition to other available services.

Benefit financing was ample from the system's inception through the 1960s, but the 1973-1975 recession caused heavy State borrowing. Ceilings on taxable wages had fallen in real dollars, and many States were caught with insufficient reserve levels. Federal pressure has now led States to repay loans and improve reserves, and the system is in better shape. The impact of a future recession, unless severe in scope, should result in less borrowing than in the 1970s.

The role of the UC system as an automatic economic stabilizer was diminished during the 1980s. The program's contribution to fiscal stimulus in 1982 was only two-thirds that of 1975 because of UC benefit reductions and tax increases, but a vastly changed fiscal policy during the 1980s lessened the importance of this change in UC. While deficit reduction and monetary policy now occupy the attention of economic policymakers, changes in UC have reduced its utility as a tool for automatic stimulation or dampening of the economy.

CHAPTER 1: OVERVIEW AND DESCRIPTION OF THE PROGRAM*

I. OVERVIEW OF REPORT

A long period of economic growth that has stretched from 1982 through 1988 has offered a respite from the major Unemployment Compensation (UC) benefit and financing problems with which Congress grappled in the 1970s and early 1980s. However, even during this relatively benign period for the system, criticisms about its performance have been frequent. It is likely that pressures will build to consider changes in the system whenever the continuity of economic growth seems threatened. The objectives of this report are to describe how the UC system works and identify its problems in order to provide Congress with a broad base of information for use when changes in the program are considered. It is hoped that this report will offer a basis of general understanding about the system and focus attention on those issues that will be particularly crucial whenever an economic downturn occurs.

The UC program is a complex Federal-State system that will pay an estimated $13.6 billion to 7.1 million workers who experience a spell of unemployment and are otherwise qualified for benefits in FY 1988. The Federal and State payroll taxes that provide the system's funding will bring in revenues of $23.0 billion. This large social insurance program serves a number of purposes: (1) it provides cash income to a covered worker whose wage income has been interrupted by a spell of unemployment; (2) by cushioning the loss of wages, it improves an unemployed worker's opportunities to search for a job with pay and working conditions similar to the lost job; (3) it helps employers regain their trained workforce after a layoff by making it possible for those laid off to delay taking new jobs; and (4) it may stimulate the national economy by increasing purchasing power during recessions.

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* Part I of this chapter was prepared by Jim Storey, part II by Gene Falk, and parts III and IV by Celinda Franco, of the Education and Public Welfare Division, Congressional Research Service.

The remainder of this chapter sets forth the basic principles underlying the UC system, relates them to major policy issues, describes the program and its background, and tells how the system works. Chapter 2 provides a quantitative background to help the reader understand the policy issues in the context of long-term changes in the labor force and its coverage by the UC system. Chapter 3 details how legislation altered the system during the 1970s and 1980s. It focuses on action by both Federal and State governments to deal with issues of the recent past.

Chapters 4-9 analyze the issues that seem to be of greatest significance for the near future and describe major legislative proposals related to them. These issues are:

o The decline in the proportion of unemployed who are benefitted by UC (chapter 4). This proportion has fallen to 32 percent in the late 1980s, raising questions about the reasons for the decline and its policy implications.

o The extent to which UC benefits replace lost wages (chapter 5). Whether or not an unemployed worker's benefits seem inadequate, too generous, or somewhere in between depends on the State in question, how long the unemployment spell is, and exactly how the comparison of benefits to prior wages is calculated.

o The availability of the Extended Benefit (EB) program for the long-term unemployed (chapter 6). As of August 1988, benefits beyond the regular 26-week program were available in no State despite the persistence of high unemployment in farm and energy States. Unavailability of EB has raised questions about the oft-amended rules that govern State qualifications for EB.

- The adequacy of program financing (chapter 7). The heavy indebtedness of State programs to the Federal Government earlier in this decade has been diminished, but the system remains vulnerable financially to the impact of a severe recession.

- The reduced significance of UC as a tool of economic stabilization (chapter 8). Changes to UC benefits and financing have reduced its relative impact on Federal fiscal policy, a change that may not be of consequence in today's fiscal environment but which may be of concern in a future recession.

- The role of employment and training services in reducing long-term unemployment (chapter 9). As the U.S. economy has undergone significant restructuring in recent years, interest has been heightened in innovative approaches to reducing structural unemployment through training and jobs programs.

II. PROGRAM PRINCIPLES AND POLICY ISSUES

The intent of the original Social Security Act of 1935 (P.L. 74-271) was to reduce economic insecurity for individuals through old age pension and unemployment assistance programs. These programs provided a first level of income assurance; the Act also established cash welfare programs to aid needy aged and blind persons and dependent children. The Federal-State UC system created by the Act is a social insurance program designed to insure workers against some of the financial loss caused by involuntary unemployment.

Social insurance is a device for the pooling of risks by their transfer to a government agency 1/ required by law to provide benefits to eligible covered persons in the event of the occurrence of certain defined losses. 2/ 3/ Social insurance operates as a form of income maintenance covering large

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1/ A broader definition might include nongovernmental groupings of persons who share risks (for example, religious organizations providing burial allowances to members).

2/ Mehr, Robert I., Cammack, Emerson, and Terry Rose. Principles of Insurance. Homewood, Ill., Richard D. Irwin, Inc., 1985. p. 500.

3/ A strict definition provided on the page cited in footnote 2 and taken from the Commission on Insurance Terminology defines social insurance as a device that provides a program in which: (1) coverage is compulsory; (2) eligibility for benefits is determined by contributions having been made to the program by or in respect of the claimant or his dependents, without any resource-test; (3) benefit determinations are prescribed by law; (4) individual benefits are not directly related to the amount of contributions, providing some income redistribution; (5) there is a defined plan for financing the benefits which is adequate in the long-range considerations; (6) program cost is borne by covered individuals, their employers, or both; (7) the government administers or supervises the program; and (8) participation in the program is not limited to present or former government employees.

segments of the population who are otherwise not able or willing to provide financial protection for themselves.

Social insurance payments differ from both private insurance payments and welfare programs. They are initiated by particular events, regarded as benefits to which rights are earned through the payment of a specified work-related tax by the beneficiary or a member of his/her family, and generally paid without regard to the beneficiary's financial need. In general, however, the amount of the benefit need not bear a strict actuarial relation to the premium paid.

The UC program, like all social insurance programs, combines both insurance principles and social welfare considerations. Many UC issues involve a balancing of the principles of sound insurance against social needs.

A. Benefit Payments

Many features of UC resemble those of a private insurance plan. A first similarity is the nature of the financial protection offered by UC. Like private insurance, UC pays benefits upon the occurrence of a specified event that causes financial loss. UC gives workers assurance of some income when they lose a job for good cause.

The benefit structure of UC also bears some resemblance to that of private insurance. Private insurance often pays partial reimbursement of the loss associated with an insurable event, since full payment might discourage the insured from avoiding the insurable event or minimizing its financial loss. 4/

4/ This incentive problem is called "moral hazard" and arises because the insurance firm cannot completely observe the behavior of the insured. Insurance firms employ deductibles and coinsurance charges to address the incentive problem. The UC counterpart to a deductible is the waiting period; its counterpart to coinsurance is a partial replacement of wages.

UC pays partial reimbursement by replacing only a portion of past wages and providing benefits for a limited time. In the UC program, partial reimbursement reduces the potential work disincentives that arise from paying benefits to the jobless.

However, social welfare considerations also are evident in the design of UC benefits. Through a generally progressive benefit structure, the use of maximum and minimum benefit levels, and, in some States, dependents' benefits, the program targets its benefits toward lower-wage workers and those with presumed greater need.

B. Benefit Financing

Another similarity of UC to private insurance is in the financing of benefits. A private insurance firm builds reserves to levels estimated to cover the expected benefit outlays. It does so by imposing a premium on beneficiaries based on the probability that the insurable event will occur. The UC program builds trust fund "reserves" by imposing a payroll tax on wages in covered employment. 5/ Most States vary the payroll tax so that jobs with employers who have experienced high levels of unemployment in the past are taxed at a higher rate than jobs with employers who have experienced low levels of unemployment. This practice, called experience rating, is similar to private insurance practices.

While UC's financing mechanism resembles private insurance, it is very different from it in two important respects. First, for the Federal

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5/ An objection can be raised here that in most States an employee does not pay the UC payroll tax, breaking down the analogy between private insurance premiums and UC taxes. However, economic theory suggests that the employee actually pays at least some of the payroll tax, through receipt of lower cash wages (and slower employment growth).

Government, UC "reserves" do not represent financial resources with which to pay benefits. These "reserves," accounted for in the UC trust fund, represent Treasury securities--in other words, debt that the Government owes to itself. The Federal Government obtains the resources to transfer funds to States with which to pay benefits through either current taxation or borrowing. What then is the role of UC reserves? Since all reserves plus new UC receipts are automatically appropriated to the program, the reserves provide a method to accumulate budget authority for the program. In private insurance, on the other hand, a firm can obtain the resources necessary to pay benefits by liquidating its reserves, which are generally invested outside the firm.

The second important difference between private insurance and social insurance financing concerns macroeconomic impact. It is very unlikely that a single insurance firm's premium and benefit flows and its investment and disinvestment practices would be large enough to affect the national economy. Social insurance revenues and outlays, as part of the Federal budget, do have a significant impact on Federal fiscal policy and, thus, on the national economy.

C. Policy Issues

The social insurance framework provides a systematic method for analyzing UC policy issues. Many of the issues can be analyzed as "tradeoffs" between insurance and social welfare concerns; other issues can be related to the program's attempt to achieve an insurance or social welfare objective.

1. The Financing Issue: Can the "Risk" of Unemployment Be Calculated?

Insurance firms finance their benefit payments by building reserves that are estimated to be sufficient to cover their estimated benefit liability. In a theoretical sense, the risk is financed by charging the insured an actuarially fair premium based on the expected risk that the insurable event will occur. 6/ The difficulty for the UC program lies in calculating the "risk" of unemployment. The constant changes in the economy, and the resultant difficulty in successfully predicting economic downturns and upturns, make it hard to estimate UC's benefit liabilities for any given year. Long-term estimates are even more difficult. Thus, there are no set UC standards for determining whether reserves are adequate.

Even if it were possible to calculate the "risk" of unemployment, policymakers would be faced with a tradeoff between the insurance principle of adequate financing and social considerations about the desirability of higher taxes. Chapter 7 discusses the UC financing issue.

2. Benefit Adequacy and Duration: The Incentive Problem

The UC program provides partial wage replacement in two ways. First, benefit levels are set at a fraction of a worker's past wages. Chapter 5 discusses benefit adequacy.

Second, UC provides only temporary wage replacement, paying benefits to unemployed workers for a limited number of weeks. Partial replacement of a financial loss is a well-established insurance principle when an incentive problem is present. The UC incentive problem is its work disincentive; by

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6/ For example, an insurance firm offering an auto-insurance plan may calculate its premiums and benefit liabilities as follows: (1) on average, the clients have a 5-percent chance of incurring a financial loss of $10,000 due to an auto accident each year; (2) the insurance firm then charges each client a $500 premium; (3) if the insurance firm has 100 clients, then, the insurance firm collects and places in reserve $50,000 from the clients. Given 100 clients each with a 5-percent chance of a $10,000 loss, one expects that five of these clients will have accidents with an average $10,000 loss; the firm's expected benefit liability equals the amount collected and placed in reserves.

lowering the cost of continuing job search for program beneficiaries, UC provides them with an incentive for continuing job search for a longer period of time than they would in the absence of UC.

The 1980s have been characterized by longer term unemployment. Average and median durations of unemployment are higher than in prior decades, and the share of the unemployed without jobs for more than 26 weeks has increased. The 1980s also are characterized by a more restrictive EB program, a program tightened, in part, because of concern about work disincentives. The longer term nature of unemployment and the view that this uncompensated joblessness is causing financial distress have led to legislative proposals to expand EB. However, in considering expansion of EB, policymakers will be faced with the tradeoff between relieving financial distress caused by long-term unemployment and the work disincentive of providing benefits for longer periods of time. Chapter 6 discusses EB policy issues.

3. The Declining Proportion of Unemployed Receiving Benefits

In the 1980s, the share of the unemployed receiving benefits declined to its lowest levels in program history, below one-third. In 1987, only 32 percent of the unemployed received UC.

The decline in the jobless beneficiary rate in the 1980s stems to some extent from policy changes made in the last decade that restricted benefit durations and availability and reduced net UC benefits through income taxation. These changes were made, in part, because of concerns about UC's effect on work incentives.

It is also possible that UC benefits are being confined to a smaller share of the unemployed because fewer people are experiencing the "insurable event"--presently defined as being involuntarily unemployed after working a sufficient length of time and earning a sufficient level of wages. This leads to a policy question: Given the changing nature of the economy, has UC's definition of an insurable event become too narrow for the program to achieve its goals of providing assistance to unemployed workers and helping to stabilize the economy? Chapter 4 examines the evidence on the causes of the decline in the share of the unemployed who receive UC.

4. Countercyclical Fiscal Policy

The insurance principle of building "reserves" to pay benefits is an important part of the UC program. However, in a Federal trust fund program, these "reserves" represent only spending authority for UC and not the resources necessary to pay benefits. The Federal Government obtains these resources through either taxation or public borrowing. UC revenue and outlays affect the Federal Government's fiscal policy.

For most of the program's history, it was believed that UC helped the Government achieve a "countercyclical fiscal policy" by increasing program revenues and reserves during prosperous times and increasing benefit payments during recessions. However, in recent years four developments have muddied UC's countercyclical role: (1) a debate about the efficacy of fiscal policy as an economic stabilization tool; (2) the stagflation of the 1970s, when high unemployment and inflation occurred together; (3) the large budget deficits of the 1980s during both recession and growth, and the accompanying emphasis upon monetary policy as a stabilization tool; and (4) a relatively smaller countercyclical impact of UC in the 1980s because of program changes. Chapter 8 discusses the program's countercyclical role.

5. The Training Issue: The Risk of Obsolete Job Skills

The longer term unemployment of the 1980s has led some to conclude that unemployment entails risks other than mere temporary financial loss; unemployment may force many workers to seek completely new careers requiring new skills. The UC program does not protect against the risk of obsolete job skills, but interest has heightened in tying job training to the UC program. Chapter 9 discusses this issue.

III. SUMMARY OF HOW UC WORKS

The Federal-State UC system is designed to provide jobless workers with cash payments during temporary periods of involuntary unemployment. In order for an unemployed worker to receive UC benefits, the worker (1) must have worked in covered employment, (2) must have an employment history indicating an attachment to the labor force, and (3) must be willing and able to accept "suitable" employment. Under existing law, a UC claimant can receive benefit payments for a usual maximum of 26 weeks through the regular program. An additional 13 weeks may be available in States that meet the conditions required for the EB program. In such States, there is a maximum potential duration of 39 weeks of benefits.

The UC program is established by both Federal and State laws. Federal law provides a broad framework to which each State program must comply in areas where uniformity is considered essential: employer coverage, program financing and administration. The U.S. Department of Labor (DoL) carries out the Federal responsibilities of UC, which include financing administration of the program and providing general oversight for the State UC programs. Each of the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands have laws determining the tax structure, eligibility requirements, benefit levels, disqualification provisions, and administration of separate UC programs.

The UC system covers employees of industrial and commercial employers, certain State employers, and specified nonprofit groups, and currently extends to approximately 97 percent of all wage and salary workers, 7/ including Federal employees and military personnel. The Federal Government reimburses State program costs for its civilian and military beneficiaries. The Federal Unemployment Tax Act (FUTA) applies UC tax provisions to employers with one or more employees in covered employment in at least 20 weeks who received wages of $1,500 or more during any calendar quarter of the current or preceding calendar year.

The UC system is primarily financed by taxes imposed by both Federal and State governments on employers for wages paid to their employees. The gross Federal tax is 6.2 percent of the first $7,000 per year paid to each employee ($434). Employers in States with approved UC plans can receive a credit against the Federal tax of up to 5.4 percent. Because all the States have approved programs, the net Federal tax rate in all States is 0.8 percent ($56 per worker). The net Federal tax revenue is used for: State and Federal administrative costs; 50 percent of EB payments; and loans to insolvent State UC programs.

States also levy employer UC taxes, at rates determined by each State program, on wage base levels that at least equal the $7,000 Federal taxable wage base. State tax revenue is used only for the payment of regular UC benefits and for 50 percent of EB payments. Each State is required to deposit all tax revenue with the Federal Treasury, which credits State accounts in the Unemployment Trust Fund. Four States also levy UC taxes on employees.

There are no Federal standards for benefit amounts, work history requirements, or duration of regular benefits. As a result, States have

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7/ U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. 1988 Edition. Committee Print 100-29, 100th Cong., 2d Sess. Washington, U.S. Govt. Print. Off., 1988. p. 329.

developed varied formulas for determining a UC claimant's benefit rights. All States require an unemployed individual to have earned a specified amount of wages or have worked a certain period of time during a base period, or both, to qualify for UC benefits. The wage and employment provisions attempt to measure the worker's labor force attachment and restrict benefits to covered workers with strong attachment to the labor force. Benefit amounts are set by States. They are based on the worker's wages during the most recent period of employment and are subject to minimum and maximum limits.

A more detailed description of the current UC system follows.

IV. DETAILED DESCRIPTION OF THE UC SYSTEM

A. Introduction

The primary objective of UC is to provide temporary and partial wage replacement for workers involuntarily jobless who are willing and able to accept suitable employment. Benefits are payable to workers who have enough qualifying wages and work experience to meet their State's eligibility standards. Because it is not means-tested, the program is distinct from relief or welfare programs. The intent of the UC system was never to give "complete and unlimited compensation to all who are unemployed." Congress rejected such a goal explicitly as "confusing unemployment insurance with relief," the program it was designed to replace. 8/

The UC program was also designed to help stabilize the economy during periods of recession by automatically enabling recipients to maintain some fraction of their previous consumption expenditures. UC acts as a brake during periods of growth, with benefit outlays falling and the payroll tax revenues rising automatically.

At the end of 1987, about 98 million workers--or 97 percent of all wage and salary jobs--were covered by UC (see table 1.1). This translates into UC program coverage for about 85 percent of all employed persons. 9/ Federal law

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8/ U.S. Congress. House. Committee on Ways and Means. The Social Security Act of 1935. House Report No. 615, 74th Congress. Washington, U.S. Govt. Print. Off., 1935. p. 7.

9/ Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. p. 329.

requires State UC programs to meet certain basic requirements in order to assure that they are financed and administered along federally mandated guidelines. Beyond certain broad Federal standards, each State is responsible for the development of its individual program and given broad discretion in determining eligibility requirements and benefit levels.

B. Legal Structure

Titles III, IX, and XII of the Social Security Act 10/ provide the basic Federal rules and framework for the UC system, and FUTA, chapter 23 of the Internal Revenue Code of 1954, establishes the system's tax structure. The program is overseen by the DoL; however, the actual administration of UC programs is left to the individual States. There are 53 separate State programs, including the District of Columbia, Puerto Rico, and the Virgin Islands, which are defined as "States" by Federal UC law.

C. History

The development of the Federal-State UC 11/ system occurred under the influence of the economic and political climate of the 1930s. However, as early as 1916, the Massachusetts Legislature considered a State UC program, and

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10/ Title III concerns grants to the States for administration of UC. It sets forth provisions that a State UC law must contain in order for the State to receive UC administrative funds. Title IX establishes the Unemployment Trust Fund and accounts within it (Employment Security Administration Account (ESAA), Federal Unemployment Account (FUA), Extended Unemployment Compensation Account (EUCA), and Federal Employee Compensation Account (FECA)). It appropriates to the Trust Fund 100 percent of revenues received during the fiscal year under FUTA. Title XII authorizes advances to States from the FUA in the Unemployment Trust Fund and specifies repayment terms.

11/ Also known as unemployment insurance. The term unemployment compensation is used in this report because that suggests a broader program than an insurance program funded by a dedicated tax.

in subsequent years several other States attempted to enact similar legislation. Those efforts met defeat because the proposed UC programs were to be financed by a tax imposed on employers. As a result, employers in States with UC programs would have been at a competitive disadvantage compared to employers in other States without UC payroll taxes. The House Ways and Means Committee, in 1935, said a uniform nationwide tax upon industry was needed to remove the "principal obstacle" 12/ to enactment of unemployment insurance laws--namely, the competitive disadvantage that unemployment insurance taxes would cause for employers in one State vs. another. (The Committee report used both terms, unemployment compensation and unemployment insurance, but said the latter was more common though less accurate.)

Wisconsin passed legislation providing a UC program in 1932; however, no other State had enacted a UC program by 1935. The Great Depression of the 1930s caused a resurgence of national interest in UC, and it was soon evident that a national UC system would be necessary to overcome the obstacles faced by individual State UC legislative efforts.

To study the problems surrounding Federal action on UC legislation, the Committee on Economic Security was created in June 1934 by Executive Order. The Committee grappled with the issues of whether there should be a national system or a Federal-State system; a uniform Federal tax on employment that provided a tax credit to employers for their contributions under State UC law; and Federal grants to States for the program administration. Ultimately, the Committee presented its recommendations, most of which were enacted. 13/

12/ House Report on the Social Security Act of 1935, p. 8.

13/ Haber, William, and Merrill G. Murray. Unemployment Insurance in the American Economy. Homewood, Ill., Richard D. Irwin, Inc., 1966. p. 82-88.

The Social Security Act of 1935 (P.L. 74-271) established the Federal-State UC system. The intent of the social insurance programs in the original Social Security Act was to assure some income for workers (and, later, for their families) who lost their jobs, reached old age, or died. States were allowed a great deal of discretion in establishing their UC programs, and they were encouraged to create a reserve pool of funds during good economic times from which unemployment benefits could be drawn during economic slumps.

Two titles of that Act sought "to encourage States to set up such systems and to help them from being handicapped" if they did so. 14/ The inducement for States to implement a UC program was provided under title IX of the Social Security Act through a tax-offset provision. The law imposed a uniform Federal tax on employers that could be reduced (offset) by a tax credit of up to 90 percent for employers who paid taxes to an approved State UC program. Thus, States were given an incentive to create UC programs that would comply with the Federal provisions. In addition, title III of the Act authorized Federal grants to States for administrative costs of an approved UC program. To qualify as an approved State UC program, a State is required to deposit all employer tax contributions in the Unemployment Trust Fund in the U.S. Treasury for credit to the individual State's account and is permitted to withdraw the Trust Fund credits only for the payment of regular UC benefits.

D. Program Financing

The UC program has a complex financing system. Provisions for the financing of the UC system are in FUTA, chapter 23 of the Internal Revenue Code.

14/ House Report on the Social Security Act of 1935, p. 7.

1. Revenue Sources

Revenue for the program is provided through taxes levied by both the Federal Government and States on covered employers. Authority to pay each State's regular UC benefits and half of the cost of EB is provided by that State's UC taxes, imposed on a portion of the wages of covered workers in the State. Federal UC taxes provide the authority to pay for State administrative costs, half the cost of EB, and loans to insolvent State UC programs (see table 1.1).

TABLE 1.1. Unemployment Compensation Program Statistics

	Fiscal year										
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (projected) a/
Total civilian unemployment rate (percent)	6.20	5.80	6.80	7.30	9.10	10.10	7.80	7.20	7.00	6.40	5.90
Insured unemployment rate (percent) b/	3.50	3.10	3.80	3.50	4.40	4.30	2.90	2.90	2.80	2.50	2.20
Coverage (millions of individuals)	79.90	86.10	87.00	88.20	86.80	86.30	89.90	93.00	95.70	98.00	100.04
Average weekly benefit amount (dollars)	80.00	85.00	95.70	101.60	113.60	120.30	118.90	122.90	128.90	134.50	140.10
State unemployment compensation:											
Beneficiaries (millions of individuals)	7.70	7.80	9.90	8.80	11.40	9.90	7.60	8.40	8.30	7.50	7.10
Regular benefit exhaustions (millions of individuals)...	2.20	2.00	2.70	3.20	3.70	4.60	2.80	2.60	2.80	2.50	2.10
Regular benefits paid (billions of dollars)	8.32	8.74	12.95	13.46	19.34	20.84	13.31	14.29	15.61	14.98	13.41
Extended benefits (State share: billions of dollars)	.51	.12	.56	1.06	.93	1.21	.03	.03	.05	.04	.01
State tax collections (billions of dollars)	11.03	12.27	11.91	12.37	12.77	14.43	19.04	20.01	18.80	19.13	18.21
State trust fund impact (income-outlays: billions of dollars)	+2.20	+3.41	-1.60	-2.15	-7.50	-7.62	+5.70	+5.65	+3.17	+4.11	+3.86
Federal unemployment compensation accounts:											
Federal tax collections (billions of dollars) c/	2.60	2.91	3.19	3.26	3.18	3.58	5.02	4.44	4.08	5.08	5.48
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars) d/........	.69	.12	.56	1.06	.97	6.80	3.01	.03	.05	.04	.01

See footnotes at end of table.

TABLE 1.1. Unemployment Compensation Program Statistics--Continued

	Fiscal year										
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (projected) a/
Administrative costs (billions of dollars):											
Unemployment Insurance Service	.93	.97	1.15	1.32	1.42	1.70	1.58	1.58	1.57	1.56	1.66
Employment Service e/	.64	.70	.73	.73	.68	.72	.76	.92	.93	.90	.95
Total administrative costs	1.57	1.67	1.88	2.05	2.10	2.42	2.31	2.50	2.50	2.46	2.61

a/ Based on President's 1989 budget.

b/ The average number of workers claiming State UC benefits as a percent of all workers covered.

c/ Net of reduced credits.

d/ The Federal Supplemental Benefits (FSB) program was created by the Emergency Unemployment Compensation Act (EUCA) of 1974 (P.L. 93-572) to provide additional weeks of benefits during periods of high unemployment to persons who had exhausted benefit rights under the regular State and Federal-State EB programs. The FSB program was financed by FUTA from 1975 through March 1977, and by general revenues from April 1977 through January 1978 when the program ended.

e/ Includes Bureau of Labor Statistics and Veterans' Employment Service.

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Way and Means. 1988 Edition. Committee Print 100-29, 100th Cong., 2d Sess. Washington, U.S. Govt. Print Off., 1988. p. 325.

a. The Federal unemployment tax. FUTA currently imposes a net Federal payroll tax on employers of 0.8 percent on the first $7,000 of wages paid annually to each employee. The gross FUTA tax rate is 6.2 percent, but if States meet certain Federal requirements and have no delinquent Federal loans, they are eligible for up to a 5.4 percent credit, resulting in a net Federal tax rate of 0.8 percent.

In 1976, Congress passed a temporary surtax of 0.2 percent of taxable wages that was added to the permanent FUTA tax rate. The current net tax rate of 0.8 percent is composed of a permanent tax rate of 0.6 percent and the 0.2-percent temporary surtax.

The revenue from the 0.2-percent surtax originally was intended by Congress to be used to repay loans borrowed from the Federal general fund by the EUCA. The loans were fully repaid during 1987, and the temporary 0.2-percent tax component was scheduled to expire on January 1, 1988. However, the House Committee on Ways and Means recommended that the 0.2-percent surtax be extended until 1990 to build up reserves in the FUA and EUCA and, thus, to help avoid future funding problems in these accounts. It proposed that the extra revenue from the surtax extension be divided evenly between the two accounts. The Committee also recommended that interest be charged on new loans from the general fund to these accounts. These provisions all were enacted in the Omnibus Budget Reconciliation Act (OBRA) of 1987 (P.L. 100-203) and became effective on January 1, 1988.

b. The Federal taxable wage base. The original Social Security Act of 1935 imposed the unemployment payroll tax on total annual wages. The decision to tax total wages "was in keeping with the principle of imposing a tax that would apply uniformly throughout the country so that no State would have an advantage over another." 15/ However, in 1939 the Social Security

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15/ Haber and Murray, Unemployment Insurance, p. 359.

Board recommended that Federal taxes for UC be limited to the first $3,000 of annual wages. In 1939, the $3,000 ceiling exceeded the annual wages of 98 percent of workers, so it reduced revenues from the unemployment tax only slightly.

Since 1940, Congress increased the UC Federal taxable wage base three times: to $4,200 in 1972; to $6,000 in 1978; and to $7,000 in 1983. These increases have not kept pace with wage growth, and the divergence between taxable and total wages may be an area of concern, particularly during recessions, when the program's resources are strained by increases in unemployment levels. Currently, taxable wages supporting the UC program represent less than half of total wages in covered employment. 16/ Tax revenues have grown more slowly than benefit payments.

Employers are required to pay both Federal and State UC taxes, based on separate taxable wage bases and tax rates. To receive the maximum Federal tax credit of 5.4 percent, States must establish a taxable wage base for State UC taxes that at least equals the Federal taxable wage base of $7,000, and all States have done so. Indeed, to meet the need for higher revenue, 36 States have adopted taxable wage bases above the federally mandated level. These range from $7,100 in Connecticut to $21,500 in Alaska (see table 1.2). No State taxes total wages.

16/ Vroman, Wayne. The Funding Crisis in State Unemployment Insurance. Kalamazoo, Michigan, The W.E. Upjohn Institute for Employment Research, 1986. p. 5.

TABLE 1.2. State Unemployment Taxable Wage Base in 1988

Alabama	$ 8,000
Alaska	21,100
Arizona	7,000
Arkansas	7,500
California	7,000
Colorado	10,000
Connecticut	7,100
Delaware	8,500
District of Columbia	8,000
Florida	7,000
Georgia	7,500
Hawaii	8,700
Idaho	16,200
Illinois	9,000
Indiana	7,000
Iowa	11,000
Kansas	8,000
Kentucky	8,000
Louisiana	8,500
Maine	7,000
Maryland	7,000
Massachusetts	7,000
Michigan	9,500
Minnesota	11,700
Mississippi	7,000
Missouri	7,000
Montana	12,600
Nebraska	$ 7,000
Nevada	12,100
New Hampshire	7,000
New Jersey	12,000
New Mexico	10,800
New York	7,000
North Carolina	10,100
North Dakota	11,000
Ohio	8,000
Oklahoma	9,100
Oregon	14,000
Pennsylvania	8,000
Rhode Island	12,000
South Carolina	7,000
South Dakota	7,000
Tennessee	7,000
Texas	8,000
Utah	13,200
Vermont	8,000
Virginia	7,000
Washington	15,100
West Virginia	8,000
Wisconsin	10,500
Wyoming	10,200
Puerto Rico	7,000
Virgin Islands	14,000

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. 1988 Edition. Committee Print 100-29, 100th Cong., 2d Sess. Washington, U.S. Govt. Print Off., 1988. p. 345-346. (Figure for the Virgin Islands was provided by the Department of Labor after publication of the Committee Print.)

c. State unemployment taxes. Regular UC benefits and half of EB are financed by State employer payroll taxes imposed on a worker's annual wages up to a State's taxable wage base. All States have adopted a taxable wage base at least as high as the Federal level. There is no Federal tax imposed on employees, but UC programs in Alabama, Alaska, New Jersey, and Pennsylvania do impose a tax on employees. 17/ Economists generally agree that employers ultimately pass along to employees and consumers the cost of a rise in their payroll tax, instead of accepting reduced profits. However, the extent to which the impact on workers is "evidenced by dampened wage growth rather than slowed employment growth has yet to be conclusively determined." 18/

States must impose a tax rate of at least 6.2 percent in order for employers within the State to take advantage of the 5.4-percent Federal tax credit on the FUTA tax, and all of the State programs do so. However, actual gross State tax rates determined by unemployment experience rating provisions can range from zero on some employers in 13 States up to as high as 10.5 percent in South Dakota. Estimated average net State tax rates in 1987 were 2.5 percent on taxable wages and 1.0 percent on total wages. 19/

d. Federal Loans to States. States with depleted reserves may obtain advances from the FUA to finance benefit payments under certain conditions specified in title XII of the Social Security Act. However, current law imposes penalties and charges interest for loans unpaid within a specified period. In States with delinquent Federal loans, employers may be penalized by

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17/ Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 344.

18/ Employee Benefit Research Institute. Government Mandating of Employee Benefits. Washington, 1987. p. 18.

19/ Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 345.

an automatic reduction in the FUTA credit and a consequent increase in their FUTA tax rate. Details of loan terms are given in the next section on the Unemployment Trust Fund.

E. Unemployment Trust Fund

1. Description of the Accounts

The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund. The Unemployment Trust Fund has 59 accounts, consisting of 53 State UC program accounts, 20/ the RUIA, the RUAA, 21/ and four accounts known as "Federal" accounts.

The four Federal accounts are: (1) the ESAA, which funds administrative costs of the UC system; (2) the EUCA, which funds the Federal share (50 percent) of the EB program; (3) the FUA, which funds loans to insolvent State UC programs; and (4) the FECA, which funds unemployment benefits administered by States for Federal civilian and military personnel. Federal unemployment taxes finance the ESAA, EUCA, and FUA. However, the FECA receives its financing from general revenue through reimbursements by employing agencies.

20/ The Secretary of the Treasury is charged with administering the Unemployment Trust Fund as a single fund, maintaining separate book accounts for each State agency, ESAA, FUA, the Railroad Unemployment Insurance Account (RUIA), the Railroad Unemployment Administration Account (RUAA), and EUCA, and crediting each with a proportionate share of Trust Fund earnings quarterly. The Secretary may invest only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

21/ The railroad accounts are lodged in the Unemployment Trust Fund as a result of the Railroad Unemployment Insurance Act. Costs of railroad unemployment benefits are paid by required "contributions" from railroad employers and, when needed, by interest-bearing loans from another Treasury account, the Railroad Retirement Account.

Under current law, loans are authorized to ESAA, EUCA, and FUA from the general fund and are interest-bearing.

2. Revenue Credits Among Accounts

The FUTA tax revenue is credited to three Federal accounts in the Unemployment Trust Fund: 22/ ESAA (administration), EUCA (extended benefits), and FUA (loans to States). Under current law, FUTA tax receipts during calendar years 1988, 1989, and 1990 from the permanent net FUTA tax rate of 0.6 percent are to be credited as follows: 0.52 percentage points to ESAA, which pays the administrative costs of the UC program, and 0.08 percentage points to EUCA. 23/ The law imposes ceilings on the total amount of revenue that can be credited to each account, and these ceilings are enforced at the end of each fiscal year.

In order to help avoid future indebtedness to the general fund by building up account reserves, the OBRA of 1987 amended various provisions of title IX of the Social Security Act that govern the ceilings on the Trust Fund accounts. The 1987 Act raised the extended benefit account (EUCA) ceiling from 0.125 percent of total wages in covered employment to 0.375 percent (estimated to reach $6.3 billion at the end of FY 1988), and increased the loan account (FUA) ceiling from 0.125 percent of total wages in covered employment to 0.625 percent of such wages (estimated to reach $10.5 billion at the end of FY

22/ The fourth Federal account, FECA, receives no FUTA revenue. Its payments are funded by reimbursements from Federal employing agencies.

23/ Thereafter, the allocation of the permanent 0.6 percent net FUTA tax is scheduled to rise to 0.54 percentage points for ESAA and 0.06 percentage points for EUCA.

1988). 24/ At the end of each fiscal year, the Secretary of the Treasury determines if the amounts credited to the ESAA, 25/ EUCA, or FUA exceed the statutory limits. Any excess in these accounts is credited to another of the accounts until all three accounts have reached their ceiling. Any remaining excess credit for tax receipts is divided and credited to the State accounts in the Trust Fund.

The 1987 Act also requires that revenue credited to the Trust Fund in 1988, 1989, and 1990 from the extension of a temporary 0.2 percent FUTA surtax on employers be divided, with 50 percent of additional revenue (0.1 percentage point) going to EUCA and an equal amount going into FUA.

3. Terms of Loans to States From FUA

Under current law, States with outstanding loans from the Federal Government are required to repay them fully by November 10 of the calendar year in which the second consecutive January 1 passes after the State borrowed funds. The application of this requirement means that a State may have from 22 to 34 months to repay a loan without penalty, depending on when the loan was obtained. If the loan is not repaid by the appropriate November 10 deadline, the State's employers become subject to an annual credit reduction in the 5.4-percent tax credit employers are allowed to take against their FUTA tax liabilities beginning on the preceding January 1 until the loan is fully repaid. Employers are required to pay the additional taxes resulting from the credit reduction by January 31 of the next calendar year.

24/ End of fiscal year estimates are taken from DoL data in the Mid-Session Review Report, July 1988.

25/ The ceiling on ESAA credits is described in section F under "ESAA funding."

The credit reduction is at least 0.3 percent per year beginning with the calendar year in which the second consecutive January first passes with a loan outstanding. Additional credit reductions follow during any remaining calendar years in which a State has an outstanding loan. Further credit reductions would be as follows: (1) in the calendar years after the third and fourth consecutive January firsts pass, employers in the State face a reduction in the amount by which 2.7 percent exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies; (2) in the calendar years in which the fifth through the ninth consecutive January firsts pass, employers face a credit reduction equal to the higher of the amount in (1) or the amount that the State's 5-year benefit-cost rate exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies. The 5-year benefit-cost rate is one-fifth of the UC benefits paid in the first 5 of the last 6 completed calendar years preceding the calendar year to which the credit reduction applies, divided by taxable wages in the last calendar year.

The OBRA of 1981 modified FUTA provisions for Federal unemployment loans to States. New loans to States are now charged interest if the loans are not repaid by the end of the fiscal year in which they are obtained. States had previously received these loans interest-free. The interest rate charged on the loans is the same annual rate paid by the Federal Government on State reserves in the Federal Unemployment Trust Fund for the quarter ending December 31 of the preceding year, not to exceed 10 percent. States are prohibited from using funds from their State accounts in the Federal Unemployment Trust Fund to pay the interest on loans.

The OBRA of 1981 added a subsection to FUTA, which under certain conditions fully limits the tax credit reduction to an amount not exceeding either 0.6 percent of wages subject to FUTA, or the percentage that was in effect for the preceding taxable year.

To qualify for the full cap on the tax credit reduction, a State must not have taken any action during the previous 12 months, unless required by State law in effect before August 13, 1981, that has caused or will cause:

(1) a reduction in the State's unemployment tax effort;

(2) a net decrease in the solvency of the State's UC system;

(3) the State unemployment tax rate for the calendar year to equal or exceed the average benefit-cost ratio for years in the 5-year period ending with calendar year 1985; or

(4) the outstanding balance of advances to the State on September 30, 1986, to be no greater than the outstanding balance for such State on September 30, 1983.

Section 272 of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 (P.L. 97-248) amended section 3302 of the Internal Revenue Code to add a provision (subsection (g)) giving a State the option of repaying on or before November 9 a portion of its outstanding loans each year through transfer of a specified amount from its account in the Unemployment Trust Fund to the FUA. The transfer to FUA is in lieu of a reduced tax credit on taxes paid by a State's employers. To avoid the credit reduction, the State must:

(1) repay all loans for the 1-year period ending on November 9 and the additional tax due because of the reduced credit applicable to tax year 1986;

(2) have or be expected to have sufficient funds remaining after the transfer to pay benefits for at least 3 months from November 1 of the same year without requiring another title XII advance; and

(3) have taken action by amendment of State law, after the date of the first advance is taken into account, to increase the net solvency of its UC system, and such net increase equals or exceeds the potential additional taxes for such taxable year.

F. Program Administration

1. ESAA Funding

State UC administrative expenses are federally financed, as authorized by title IX of the Social Security Act. The ESAA finances administrative costs associated with Federal and State UC and Employment Service (ES) programs. Under current law, 65 percent of the total 0.8 percent FUTA tax revenue is allocated to ESAA. 26/ Funds for administration grants to States are limited to 95 percent of the estimated annual revenue expected to flow into ESAA from the FUTA tax. This estimate is calculated after the transfer of 35 percent of receipts from the 0.8 percent FUTA tax to EUCA and FUA. During periods when the rate of insured unemployment is 15 percent higher than the corresponding calendar quarter in the preceding year, administrative funds may be augmented by the lesser of 0.375 percent of the amount in ESAA at the beginning of the fiscal year, or $150 million.

2. Allocation of Administrative Funds to States

Payments for the "proper and efficient" administration of the UC program are authorized under title III of the Social Security Act for each State with an approved UC program. State allocations must be based on: (1) the State's population; (2) an estimate of the number of persons covered by the State UC law; (3) an estimate of the cost of proper and efficient administration of such program; and (4) other factors the Secretary of Labor considers relevant.

26/ This allocation amounts to 0.52 percentage points. Beginning in 1991, when the temporary 0.2 percent surtax is to expire, the allocation is scheduled to rise to 0.54 percentage points (90 percent of the 0.6 percent permanent tax). The remaining 0.06 percentage points (10 percent of the tax) will go to EUCA.

The DoL and Treasury Department estimate the amount of FUTA revenue expected each year and the appropriate amounts available for administrative costs of the UC program, as well as for the Federal share of the EB program. Such revenue estimates are based on: (1) a wage base of $7,000 per employee; (2) a tax rate of 0.8 percent (0.52 percent for administration, 0.18 percent for EB, and 0.10 percent for the Federal loan account); 27/ (3) the Administration's projection of unemployment levels and wage growth; and (4) the level of covered employment subject to FUTA taxes. Also included in the revenue estimates is the Administration's forecast of whether the unemployment rate will increase by at least 15 percent over the previous year.

The President's annual budget sets forth estimates of national unemployment in terms of the volume of unemployment claims filed per week, or the average weekly insured unemployment (AWIU). A portion of the AWIU is expressed as "base" unemployment and the remainder of AWIU as "contingency" unemployment for determining administrative expenses. The current base is set at the level of resources needed to process an average weekly volume of 2.0 million weeks of unemployment. States are provided with funding for administering their UC programs, which includes processing claims and paying benefits, for both the base and contingency workloads. Only base funds are allocated at the beginning of the fiscal year and are distributed to each State based on a share of the expected level of unemployment, while contingency funds are allocated on the basis of need during the year if a State's workload exceeds the base level. States receive the level of contingency funds that DoL estimates are required to process the additional workload over the base level.

27/ As noted earlier, after expiration of the 0.2 percent surtax, this allocation is scheduled to change.

Base UC grant funds are allocated to each State by: (1) projecting the expected workload to be processed by each State based on the annual average workload of the prior year, and adjusting the State's estimated workload to equal the budgeted national base workload of 2.0 million; (2) determining the staff required to process each State's projected workload; (3) multiplying the final staff-year allocations for each State by the cost per staff year to arrive at dollar funding levels; and (4) allocating overhead resources using a methodology driven by the program staff-years used in the UC base allocation.

C. Coverage

1. Qualified Employment

To qualify for UC benefits, an unemployed individual must have worked recently in employment covered under a State's UC system for a specified period of time and/or must have earned a certain level of wages, and must not be disqualified. For example, a jobless worker is disqualified for benefits if there were not good cause for his job loss. (Moreover, to receive benefits, a worker must not be in a group that is categorically ineligible in certain periods despite having worked in covered employment. Thus, Federal law requires denial of UC benefits to certain school personnel during vacation periods and to certain professional athletes between seasons.)

The FUTA defines certain employers that States are required to cover in order to qualify for the 5.4-percent Federal tax credit. All States must cover the following:

(1) Employers who paid at least $1,500 in wages during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year, except for nonprofit organizations, State-local governments, certain agricultural labor, and domestic service in a private home, local college club, or local chapter of a college fraternity or

sorority unless performed for cash remuneration of $1,000 or more in any calendar quarter;

(2) Employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more farm workers in at least 1 day in each of 20 different weeks in the current or prior year except for certain alien farmworkers exempted by section 3306(c)(1) of FUTA until January 1993; and

(3) Domestic service employers who paid cash wages of $1,000 or more during any calendar quarter in the current or prior year.

The FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year, and State and local governments without regard to the number of employees. State and local governments and nonprofit organizations are not required to pay Federal unemployment taxes; they may instead reimburse the State UC system for benefits paid to their laid-off employees.

2. Workers Not Covered

Covered employment is established through State UC laws, which determine both the employers liable for contributions and the workers who accrue rights to coverage. States may extend coverage to certain employment not covered by FUTA, but most States have not significantly expanded their coverage beyond what is required by FUTA. Types of employment excluded from FUTA coverage include: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service in the employ of a hospital performed by a patient of such hospital; (5) certain student interns; (6) certain alien farmworkers; (7) certain seasonal camp workers; and (8) railroad workers. 28/

28/ Railroad workers are covered under a separate UC program established by the Railroad Unemployment Insurance Act (P.L. 75-722).

It is advantageous to employers and workers for State unemployment laws to cover at least all workers covered by FUTA. If, for example, certain employers or wages or types of employment are subject to the FUTA tax but are not covered by the State UC program, the credit against the Federal unemployment tax cannot be taken by an employer on such services or wages. In this situation, the employer would be exempt from State unemployment taxes but would be subject to the entire 6.2-percent FUTA tax on wages up to the prevailing taxable wage base. Moreover, employees not covered by State law would not be eligible for UC benefits during periods of unemployment.

Most State laws originally covered only employers who had eight or more workers in each of 20 weeks, but amendments to FUTA in 1954 and 1970 extended coverage to smaller firms in all States. The Federal definition of a covered employer is one who pays a quarterly payroll of $1,500 in the current or preceding calendar year or has at least one worker on 20 days in different weeks. This definition has been adopted by 33 States. 29/

As noted before, the current Federal-State UC system covers about 97 percent of all wage and salary workers. Workers not covered by the UC system are a small proportion of the total civilian workforce, but they represent an important gap in coverage of the current program. Coverage by UC is defined to include certain types of services performed, but benefit eligibility is limited by the exclusion of certain types of unemployment.

a. School personnel. Federal law requires that States cover most of the services performed for States or their political subdivisions. However, there are special provisions for employees of educational institutions.

29/ U.S. Dept. of Labor. Employment and Training Administration. Comparison of State Unemployment Insurance Laws. Jan. 3, 1988. p. 1-2.

Federal law requires States to deny benefits between successive academic years or terms to any individual employed by a school or by an educational service agency performing services to or on behalf of an educational institution if the individual performs services in 1 year or term and is reasonably assured of employment in the second year or has a contract to perform services in the second year or term. The denial applies to vacation or holiday periods within school years or terms.

In addition, States are required to pay benefits retroactively to school personnel if they were given reasonable assurance of reemployment but not rehired once the new school year or term began. In order to receive these retroactive benefits, the individual is required to continue to file timely claims during the entire denial period. This provision applies to school personnel not performing services in an instructional, research, or principal administrative capacity.

According to the Current Population Survey (CPS), about 218,000 people were unemployed after having worked in educational services in 1987. This unemployment figure includes both private and public educational employees, as well as employees of tangentially related educational services. At the occupational level, the CPS reports 72,000 unemployed teachers (excluding colleges and universities) and 4,000 counselors of educational and vocational institutions. 30/

b. Farmworkers. In 1976, P.L. 94-566 extended UC coverage to employees of large agricultural employing units with 10 or more workers in 20 weeks who paid $20,000 or more in cash wages during any calendar quarter. Under the 1976 amendments, States were given the option of excluding coverage

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30/ These CPS estimates of annual average unemployment are annual averages calculated as the sum of the survey's weighted monthly estimates.

of services performed before January 1, 1993, by aliens legally admitted to the U.S. for seasonal employment. As of January 1988, 11 State programs excluded alien farmworkers from coverage. 31/

Coverage of large agricultural employers includes many marginal agricultural services that are a part of the larger industry but excludes many of the farmworkers who experience high levels of temporary or seasonal employment from UC coverage. The administrative complexity of determining who will be treated as the employer of farmworkers and thereby liable for the FUTA tax, the crew leader or the farm operator, and enforcement of proper employer reporting responsibilities also limit the likelihood of UC benefits for jobless farmworkers.

The CPS does not provide an estimate of unemployment levels for farmworkers. For the category of agricultural services at the industry level, 207,000 were unemployed for some period of time in 1987. However, this agricultural category includes unemployment in logging operations, conservation work, animal caretaking, and grading and sorting of agricultural produce. Thus, the estimate does not provide precise information on the level of unemployment among farmworkers.

c. Athletes. States are required to deny benefits to professional athletes between two successive sport seasons by P.L. 94-566. The denial is imposed on individuals who spent the first season participating in, or preparing to participate in, sports or athletic events if there is reasonable assurance of performing similar services in the second season. The CPS survey reported an annual average unemployment level of approximately 4,000 athletes in 1987.

31/ Comparison of State Unemployment Insurance Laws, p. 1-6.

d. The self-employed. For the purposes of determining UC coverage, employment is defined to be work done for others for wages 32/ and does not include self-employment. Protection of the self-employed is not regarded as feasible because of the difficulty of determining in any given week whether a self-employed individual is employed or unemployed. However, California has enacted legislation under which a self-employed person can apply for self-coverage.

According to CPS estimates, 191,000 self-employed and unpaid family workers 33/ were unemployed in 1987.

H. Eligibility

1. Federal Guidelines

Despite the wide latitude given States in determining their laws, under certain circumstances Federal law provides that UC benefits may not be denied. States are prohibited from denying benefits to an otherwise eligible individual for refusing to accept a job under any of the following conditions: (1) if the job is vacant due to a strike, lockout, or other labor dispute; (2) if wages, hours, or other conditions are substantially less favorable for the individual than those available for similar work in the area; and (3) if, as a condition of employment, the individual would be required to join a company union or resign from, or refrain from joining, any labor organization. Moreover, benefits may not be denied solely on the grounds of pregnancy.

32/ Ibid., p. 1-8.

33/ An unpaid family worker is defined as one who works without pay for at least 15 hours a week on a farm or in a business operated by a relative who is a member of the household. Such a worker may experience a spell of unemployment as the result of seasonal fluctuations or a failed business.

On the other hand, Federal law requires that benefits be denied to certain jobless persons. As noted earlier, benefits must be denied to: employees of educational institutions during summer or other vacation periods if they are reasonably assured of reemployment, and to professional athletes between sport seasons. Further, benefits must be denied to aliens not legally available to work in the United States.

Disqualification from receiving benefits is usually caused by: (1) being unable to work or unavailable for work; (2) voluntary separation from work without good cause; (3) discharge for misconduct connected with the job; (4) refusal of suitable employment without good cause; or (5) unemployment as a result of a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for a prescribed period of time, a reduction in benefit payments otherwise payable, or the cancellation of benefit rights.

2. State Rules and Procedures

UC benefits are available to unemployed workers who have demonstrated their attachment to the labor force. States have developed varied and complex methods for determining labor force attachment, generally based on three major factors: (1) the amount of recent employment and earnings; (2) the demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualification criteria related to a claimant's most recent job separation or job offer refusal.

Monetary benefit rights are based on a worker's covered employment over a prior reference period, or the "base period," and these benefits remain fixed for a recipient's "benefit year." In most States, the base period is a recent 1-year period defined as the first four quarters of the last five completed calendar quarters preceding the filing of the claim for unemployment benefits. Most States require employment in at least two of the calendar quarters during the base year. Qualifying wage requirements for a minimum weekly benefit vary widely, from base year earnings in 1988 of $150 in Hawaii to $3,640 in Oklahoma (see table 1.3).

In all States, a claimant must continually meet the conditions of being able and willing to work in order to receive benefits. Most State laws require that a claimant register for work at a local employment office and actively seek work or make a reasonable effort to obtain work. A claimant may not refuse an offer or referral to work in the claimant's customary occupation, or in a range of jobs considered "suitable work" and meeting certain health, safety, moral, and labor standards. However, a few States change the definition as the period of unemployment lengthens, requiring the claimant of regular UC benefits to accept a wider range of jobs.

TABLE 1.3. Monetary Qualification Requirements for Minimum and Maximum Weekly Benefit Amounts and Maximum Total Potential Benefits in 1988 a/

State	Required total earnings in base year			Minimum work in base year (quarters) c/
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits b/	
Alabama	$ 774	$ 4,302	$ 9,358	2Q
Alaska	1,000	19,750	19,750	2Q
Arizona	1,500	5,044	10,528	2Q
Arkansas	1,080	10,608	15,912	2Q
California	1,200	5,533	8,630	....
Colorado	1,000	22,152	22,152	....
Connecticut	600	8,640	8,640	2Q
Delaware	720	15,990	15,990	....
District of Columbia	900	8,625	13,000	2Q
Florida	400	8,000	20,800	2Q
Georgia	1,350	7,750	16,118	2Q
Hawaii	150	6,690	6,690	2Q
Idaho	1,430	6,110	15,886	2Q
Illinois	1,600	9,321	9,321	2Q
Indiana	2,500	3,349	9,984	2Q
Iowa	870	5,762	13,026	2Q
Kansas	1,530	6,120	15,912	2Q
Kentucky	1,500	12,700	12,700	2Q
Louisiana	300	10,225	19,739	2Q
Maine	1,865	4,164	12,558	2Q
Maryland	900	7,020	7,020	2Q
Massachusetts	1,200	6,600	18,333	....
Michigan	2,010	8,815	15,427	2Q
Minnesota	1,250	8,125	19,500	2Q
Mississippi	1,200	5,200	10,140	2Q
Missouri	750	4,667	10,920	2Q
Montana	1,098	7,388	15,606	2Q
Nebraska	1,200	3,650	10,449	2Q
Nevada	600	6,638	13,806	2Q
New Hampshire	2,800	23,500	23,500	2Q

See footnotes at end of table.

TABLE 1.3. Monetary Qualification Requirements for Minimum and Maximum Weekly Benefit Amounts and Maximum Total Potential Benefits in 1988 a/--Continued

State	Required total earnings in base year			Minimum work in base year (quarters) c/
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits b/	
New Jersey	$1,620	$ 8,033	$14,058	2Q
New Mexico	1,031	5,168	6,890	2Q
New York	1,600	7,180	7,180	2Q
North Carolina	1,945	10,608	15,912	2Q
North Dakota	2,795	11,635	14,893	2Q
Ohio	1,702	6,280	8,164	2Q
Oklahoma	3,640	7,387	9,100	2Q
Oregon	1,000	17,760	17,760	2Q
Pennsylvania	1,320	10,000	10,000	2Q
Puerto Rico	280	4,400	4,400	2Q
Rhode Island	1,420	7,500	15,750	2Q
South Carolina	900	5,148	10,296	2Q
South Dakota	1,568	7,840	10,917	2Q
Tennessee	1,508	9,560	15,080	2Q
Texas	1,221	7,770	20,222	2Q
Utah	1,400	7,878	19,452	2Q
Virgin Islands	1,287	5,616	11,232	2Q
Vermont	1,400	6,400	6,400	2Q
Virginia	2,900	8,350	16,700	2Q
Washington	1,325	10,250	18,450	....
West Virginia	2,200	21,250	21,250	2Q
Wisconsin	1,258	6,766	13,134	2Q
Wyoming	1,440	7,920	17,157	2Q

See footnotes on next page.

a/ Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

b/ Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

c/ Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least two quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. 1988 Edition. Committee Print, 100th Cong., 2d Sess. Washington, U.S. Govt. Print Off., 1988. p. 331-332.

I. Benefit Amounts

1. Amount and Duration of Regular Weekly Benefits

States determine weekly benefit amounts as a fraction of an individual's average weekly wage up to a maximum level set by each State (see table 1.3). The weekly benefit amounts are determined by each State and generally replace about 50 percent of a State's gross average weekly wage. The State average weekly wage levels are used to determine maximum benefit amounts. As a result, the actual UC wage replacement rate is lower than 50 percent of former wages for workers whose usual wage is above the State's average weekly wage. Average weekly benefits in 1987 in the 50 States ranged from $96 in Tennessee to $175 in Minnesota and the District of Columbia. For the Nation benefits averaged $139 weekly. 34/ Maximum 1988 weekly benefits ranged from $96 (without dependents' allowances) in Indiana to $354 (including dependents' allowances) in Massachusetts.

34/ Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 337-338.

Under current law, the total maximum potential benefit duration is 39 weeks. Most regular State programs usually provide up to 26 weeks of benefits (see table 1.4), and the permanent Federal-State EB program provides up to 13 additional weeks in States with unemployment rates exceeding certain levels. In 1987, the average duration of regular weekly benefits ranged from 6 weeks in New Hampshire to 20 weeks in Wyoming. In 1987, the national average duration was 14.1 weeks (and total regular UC benefits for an unemployment spell averaged $2,043 per beneficiary). 35/

35/ Ibid., p. 336.

TABLE 1.4. Amount and Duration of Weekly Benefits for Total Unemployment Under the Regular State Programs

State	1988 weekly benefit amount a/		1987 average weekly benefit	1988 potential duration (weeks)		1987 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Alabama	$ 22	$ 120	$101	11	26	12
Alaska	38-62	188-260	159	16	26	17
Arizona	40	135	119	12	26	14
Arkansas	36	204	123	10	26	13
California	30	166	121	12	26	16
Colorado	25	213	160	8	26	14
Connecticut	15-22	216-266	164	26	26	11
Delaware	20	205	138	18	26	11
District of Columbia .	26	250	175	17	26	19
Florida	10	200	127	10	26	14
Georgia	37	155	118	10	26	10
Hawaii	5	223	151	26	26	13
Idaho	44	188	134	10	26	13
Illinois	51	176-230	146	26	26	18
Indiana	40	96-161	105	9	26	13
Iowa	25-30	167-205	142	11	26	15
Kansas	51	204	158	10	26	15
Kentucky	22	151	107	15	26	14
Louisiana	10	191	145	12	26	19
Maine	26-39	161-241	129	11	26	11
Maryland	25-31	195	148	26	26	14
Massachusetts	14-21	236-354	170	10	30	14
Michigan	54	242	164	15	26	13
Minnesota	38	250	175	10	26	15
Mississippi	30	130	100	13	26	14
Missouri	22	140	113	11	26	14
Montana	45	181	131	8	26	14
Nebraska	20	134	111	20	26	12
Nevada	16	177	139	12	26	14
New Hampshire	39	156	122	26	26	6
New Jersey	48	241	165	15	26	15
New Mexico	31	159	122	19	26	18
New York	40	180	139	26	26	17
North Carolina	16	204	124	13	26	10
North Dakota	43	179	147	12	26	15

See footnote at end of table.

TABLE 1.4. Amount and Duration of Weekly Benefits for Total Unemployment Under the Regular State Programs—Continued

State	1988 weekly benefit amount a/		1987 average weekly benefit	1988 potential duration (weeks)		1987 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Ohio	$ 42	$157-248	$149	20	26	15
Oklahoma	16	197	141	20	26	16
Oregon	52	222	143	6	26	15
Pennsylvania	35-40	252-260	159	16	26	16
Puerto Rico	7	110	73	20	20	19
Rhode Island	43-53	225-281	138	12	26	12
South Carolina	20	132	103	15	26	11
South Dakota	28	140	110	18	26	12
Tennessee	30	145	96	12	26	12
Texas	34	210	162	13	26	17
Utah	13	202	159	10	26	14
Vermont	17	160	127	26	26	13
Virginia	58	167	133	12	26	9
Virgin Islands	30	144	107	14	26	15
Washington	55	205	150	16	30	15
West Virginia	24	225	147	26	26	14
Wisconsin	38	200	143	1	26	14
Wyoming	36	198	166	12	26	20

a/ A range of amounts is shown for those States that provide dependents' allowances.

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. 1988 Edition. Committee Print 100-29, 100th Cong., 2d Sess. Washington, U.S. Govt. Print Off., 1988. p. 337-338.

2. Pension Offset

Under current law, States are required in certain cases to offset or reduce an individual's UC benefits by some or all of the income received in the form of a pension or other retirement benefit, including social security. This offset affects some persons who retire from one job, qualify for retirement benefits, take another job, and become unemployed. In general, the offset applies only if the work-related pension was maintained or funded by a "base period" or "chargeable" employer. A "chargeable employer" is one having an account with the State UC system whose account will be charged for UC benefits paid to the individual. A "base-period" employer is one who employed the individual during a State-specified base period that determines the amount and duration of his/her UC benefit payments. States have the option of reducing the amount of the offset by an amount consistent with any contribution the employee made toward the pension.

For private pensions, the offset does not apply unless a second condition is met--namely, that the UC claimant's service during the base period affected pension eligibility or increased the pension amount.

For social security and railroad retirement recipients, the pension offset applies if contributions were made toward the retirement benefit by the claimant's base-period or chargeable employer. Since most UC base-period employers pay social security taxes, most UC claimants who receive social security benefits are subject to the pension offset. Each State has the option of excluding from calculation of the pension offset up to 50 percent of social security and railroad retirement taxes as the contribution paid by the employee. Currently, 32 States reduce UC benefits on less than a dollar-for-dollar basis to take into account contributions made by the worker to social security and railroad retirement.

Most military pensions are excluded from pension offset provisions. In cases of military personnel who retire and subsequently work for another employer, the military pension would not offset UC benefits because the military probably would not be the base period employer at the time of the claim.

3. Taxation of UC Benefits

For more than 40 years UC benefits were exempt from Federal income taxes. Effective in 1979, Congress imposed Federal income taxes on some UC benefits (P.L. 95-600). It phased out the income tax exemption for UC benefits received by single taxpayers with adjusted gross income (including UC) above $20,000 (above $25,000 for married taxpayers filing jointly). In 1982, Congress reduced these thresholds to $12,000 and $18,000, respectively (P.L. 97-248). The Tax Reform Act of 1986 (P.L. 99-514) made all UC received after December 31, 1986, subject to Federal income taxes. The purpose of taxing benefits was, in effect, to reduce the incentive to collect benefits for individuals with substantial income without means-testing UC benefits, while raising needed Federal revenue. Taxes are not withheld at the time of receipt of UC benefits. Instead, UC benefits are included in the calculation of gross taxable income used to determine Federal income taxes at the end of the tax year.

J. Extended Benefits

1. Current Provisions

The EB program, enacted in the Extended Unemployment Compensation Act of 1970 (P.L. 91-373), and as later amended, provides benefits during periods of high unemployment in a State where the EB program has been activated. Benefits equal one-half of a claimant's total regular benefits. A claimant in a State with an activated EB program is eligible to receive benefits of up to 13 additional weeks for a combined maximum of 39 weeks of regular benefits and EB. The program is activated: (1) if the State's 13-week average insured unemployment rate (IUR) is at least 120 percent of the average of its 13-week IUR during the same 13-week calendar period over the last 2 years, and the current 13-week average IUR is at least 5.0 percent; or (2) at State option, if a State's current 13-week IUR is at least 6.0 percent. Except for 13 State UC programs, all State programs have chosen to add the second option for triggering the EB program to their UC laws. An EB period ends when the State no longer meets these requirements.

In the last decade, State outlays for EB reached a peak of $1.2 billion in 1983. In January 1987 only two States, Alaska and Louisiana, had activated EB programs. Alaska's EB program began on December 29, 1985, and ended on August 29, 1987. Louisiana's EB program "triggered on" from May 18, 1986, to March 14, 1987. The Idaho and Wyoming EB programs were also activated during 1987 between March 15, 1987, and June 13, 1987. On January 24, 1988, Alaska's EB program again triggered on when the State's IUR reached 6.62 percent; it triggered off on July 9, 1988. No State in August 1988 had an EB program in operation.

2. Comparison to Earlier Benefit Extension Programs

Since UC was enacted, the national economy has experienced several recessions--eight since World War II. The increase in the number of unemployed workers exhausting their UC benefits during recessions prompted Congress to authorize various temporary programs to supplement regular and/or EB. Before the enactment of a permanent EB program in 1970, such temporary programs were the only method of extending UC benefit payments beyond the regular program's 26-week duration.

Congress authorized two temporary programs before establishing the permanent EB program. First, the Temporary Unemployment Compensation (TUC) Act of 1958 (P.L. 85-441) was a voluntary program established in response to the 1957-58 recession. The TUC program offered States interest-free Federal loans if they increased the duration of benefits to UC recipients by 50 percent, for a maximum of 13 weeks, after claimants exhausted their regular benefits. A total of 17 States participated in this program, while 5 other States independently enacted their own EB programs. The Temporary Extended Unemployment Compensation (TEUC) Act of 1961 (P.L. 87-6) authorized the second temporary benefit extension program, and State participation was mandatory. The program was financed through a temporary increase in the net FUTA tax.

Three temporary programs have provided benefits beyond "extended" to UC recipients who have exhausted both regular and EB during periods of severe unemployment. The Emergency Unemployment Compensation Act (EUCA) of 1971 (P.L. 92-224) made noninterest-bearing repayable advances available to States through EUCA. The program provided eligible recipients with up to half of the duration of their regular benefits or 13 weeks, whichever was less.

The EUCA of 1974 (P.L. 93-572) created the Federal Supplemental Benefits (FSB) program in response to the 1974-75 recession. Originally, the FSB program provided 13 weeks of benefits to UC recipients who exhausted regular benefits and EB; however, the Tax Reduction Act of 1975 (P.L. 94-12) increased the potential duration of FSB benefits to 26 weeks, for a maximum potential duration of 65 weeks. The Emergency Unemployment Assistance Extension Act of 1975 (P.L. 94-45) reduced the FSB program to a duration of 13 weeks of benefit payments, thus lowering the maximum potential benefit period to 1 year.

The FSB program expired on October 31, 1977. The Federal Supplemental Compensation (FSC) program was established by the TEFRA of 1982 (P.L. 97-248), providing benefits for up to 6, 8, or 10 weeks to UC recipients who exhausted regular and extended UC benefits. FSC recipients received the same weekly sums as under the regular UC program. The duration of FSC benefits was lengthened to 16, 14, 12, 10, or 8 weeks, depending on unemployment conditions within a State, by the Surface Transportation Assistance Act of 1982 (P.L. 97-424). The Social Security Amendments of 1983 (P.L. 98-21) provided additional FSC benefits of 10, 8, or 6 weeks to individuals who exhausted their basic FSC benefits on or before April 1, 1983. In addition, there were several extensions and modifications of the FSC program until it expired on June 30, 1985. (For a detailed history of temporary benefit extension programs, see appendix C.)

CHAPTER 2: TRENDS IN THE LABOR FORCE, UNEMPLOYMENT, AND THE UNEMPLOYMENT COMPENSATION PROGRAM*

The condition of the economy strongly affects the unemployment compensation (UC) program; debate about UC policy issues is influenced by the condition of the economy at the time of the debate. This chapter describes how UC program activity has changed over time. It does so in the context of describing changes in the economy. This chapter's purpose is to provide historical perspective for some of the information presented in chapters 4 through 9, which examine current UC policy issues.

Since economic conditions strongly affect UC, the chapter begins with a discussion of changes in the economy that affect the program, particularly changes in the labor force and in the characteristics describing unemployment. The second part of this chapter describes UC program trends. Appendix A provides support tables for charts in this chapter and the rest of the report.

Some of the major findings of this chapter follow:

- From the 1960s through the early 1980s, the proportion of the labor force accounted for by women and workers less than 25 years old grew. This may have decreased the proportion of the labor force potentially eligible for benefits, because new entrants and jobless workers with only a short-time work history are less likely than veteran workers to qualify. However, by the mid-1980s, as baby-boomers moved into their prime working years, this situation changed.

- The unemployment rate and average duration of unemployment rise during recessions and fall during periods of growth. In the 1980s, both the unemployment rate and length of unemployment climbed above their historical averages, partly because of the back-to-back recessions of 1980 and 1981-1982. In the first 8 years of the 1980s, the average duration of unemployment grew to 15.6 weeks, up

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* This chapter was prepared by Elizabeth Cook and Gene Falk of the Education and Public Welfare Division, Congressional Research Service.

31 percent from the average of the 1970s decade (11.9 weeks). In 1986, the unemployment rates were 6.6 for whites; 15 for blacks, and 10.6 for Hispanics.

o Measured in constant dollars, total UC benefit payments in the 1981-82 recession fell almost one-fourth below those of the 1973-1975 recession, which had been less severe. The benefit decline amounted to $9.4 billion (1987 dollars). Almost $6 billion of the decrease represented less help from Federal or federally-aided programs for persons whose other UC benefits were exhausted.

o On average, real weekly UC benefits fell 7.4 percent from 1972 to 1982, reflecting sluggish or negative real wage growth. Trends in State benefits showed wide variation.

o Since 1970, there were four major recessions, and the Unemployment Trust Fund was in deficit for 10 of the 17 years from 1970 to 1986.

o Unemployment Trust Fund reserves fell sharply in the 1970s and remained low through the early 1980s before recovering to higher levels in the 1983 to 1986 period. However, the 1986 trust fund reserve ratio--net reserves over total wages paid in covered employment--remained well below its pre-1970 level.

o Since World War II, the proportion of the labor force in jobs covered by UC has grown. However, there has been a growing gap between the total unemployment rate and the insured unemployment rate, indicating that fewer of the jobless are receiving benefits. Through the 1970s, this trend may have been affected by changes in the composition of the labor force, noted above.

o From 1970 to 1986, both UC taxes and outlays have increased as share of taxable payroll. However, the growth in outlays during recessions has far outstripped the growth in revenue during periods of prosperity.

I. ECONOMIC CHANGES THAT AFFECT UC

The economy is constantly undergoing change. Some of these changes are likely to be temporary, while others are more lasting. Economic changes over time can be classified into two types: secular and cyclical trends. Secular trends are long-term trends that can be identified as spanning longer time periods than do business cycles. Cyclical trends represent those changes that are temporary, attributable to business cycles of growth and recession. The National Bureau of Economic Research (NBER) has identified eight recessions that have occurred since World War II: (1) November 1948 to October 1949, (2) July 1953 to May 1954, (3) August 1957 to April 1958, (4) April 1960 to February 1961, (5) December 1969 to November 1970, (6) November 1973 to March 1975, (7) January 1980 to July 1980, and (8) July 1981 to November 1982. 1/ Other periods represent economic expansion, though the rate of growth has varied considerably among such periods.

This section begins with an examination of the trends in labor force participation and composition of employment, which are primarily secular. It is followed by information on the changing characteristics of unemployment; unemployment trends have both cyclical and secular components.

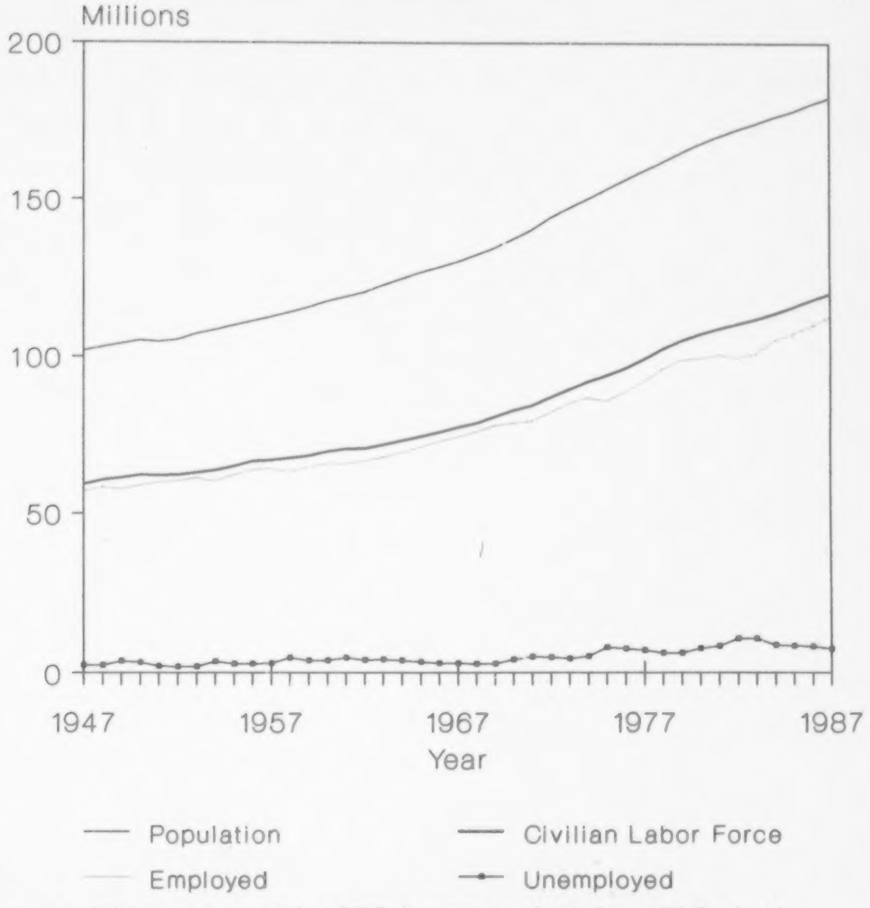
1/ U.S. Department of Commerce. Bureau of Economic Analysis. Business Conditions Digest, July 1983. From information on chart A.1. p. 10.

A. Trends in Civilian Labor-Force Participation and Employment

The composition of the labor force has changed over time because of population changes and changes in the labor force participation of various demographic groups. 2/ Chart 2.1 shows the number in the civilian noninstitutional population age 16 and older, the civilian labor force, and the number of employed and unemployed workers from 1947 to 1987. The civilian noninstitutional population age 16 and older--the pool of potential workers--increased 79 percent over the 40 years. During this same period, the civilian labor force increased by 102 percent. The civilian labor force grew faster than the population because labor force participation rates increased.

2/ The Civilian Labor Force refers to the noninstitutional population age 16 and older that is gainfully employed or actively seeking work.

Chart 2.1: Population, Labor Force, Employment, and Unemployment (Civilian Noninstitutional Population Age 16+) 1947-1987

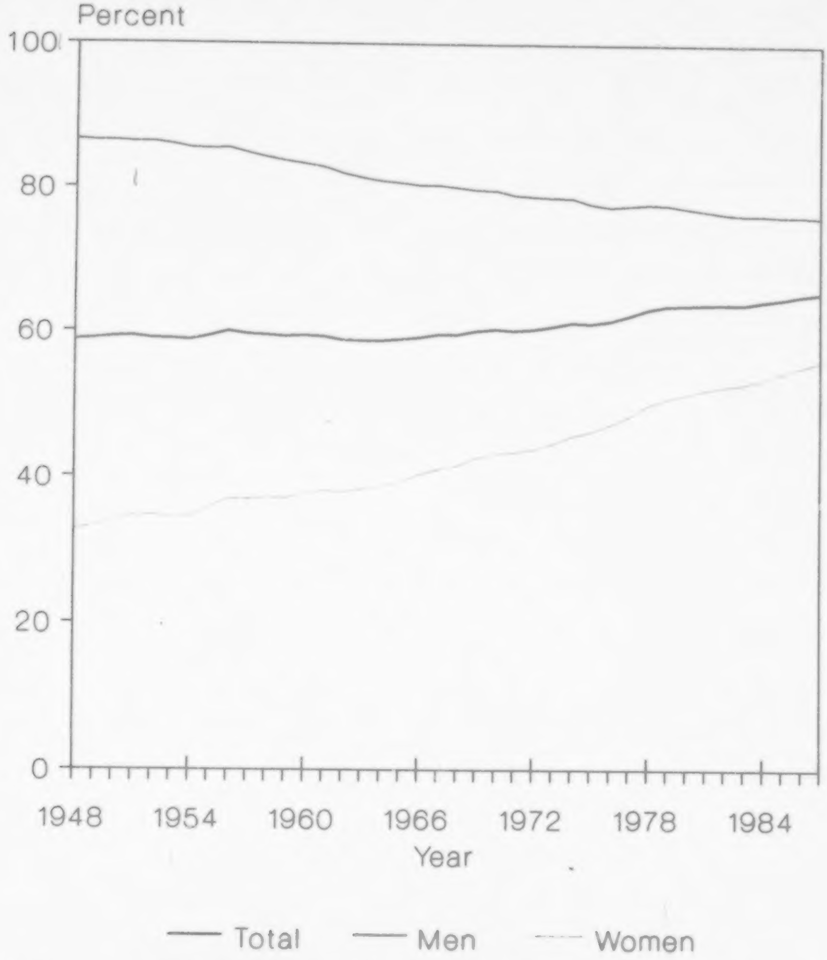


Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

During the period from the late 1940s to the early 1970s, overall civilian labor-force participation remained fairly stable, with roughly 60 percent of the civilian noninstitutional population age 16 and older participating in the labor force. (See chart 2.2.) Beginning in the early 1970s, civilian labor-force participation increased gradually, and by 1987 it reached 66 percent.

The stability of total labor-force participation from the post-World War II era to the early 1970s masks an underlying trend. During this period, male labor-force participation was decreasing, primarily because men were retiring from the labor force at younger ages, but female labor-force participation was increasing as women joined and remained in the labor force in greater numbers and for longer periods of time. Female labor-force participation accelerated during the 1970s and continued to grow in the 1980s. In 1948, one-third of women over age 16 were in the labor force. By 1970, this figure had increased to 43 percent, and by 1987 to 56 percent.

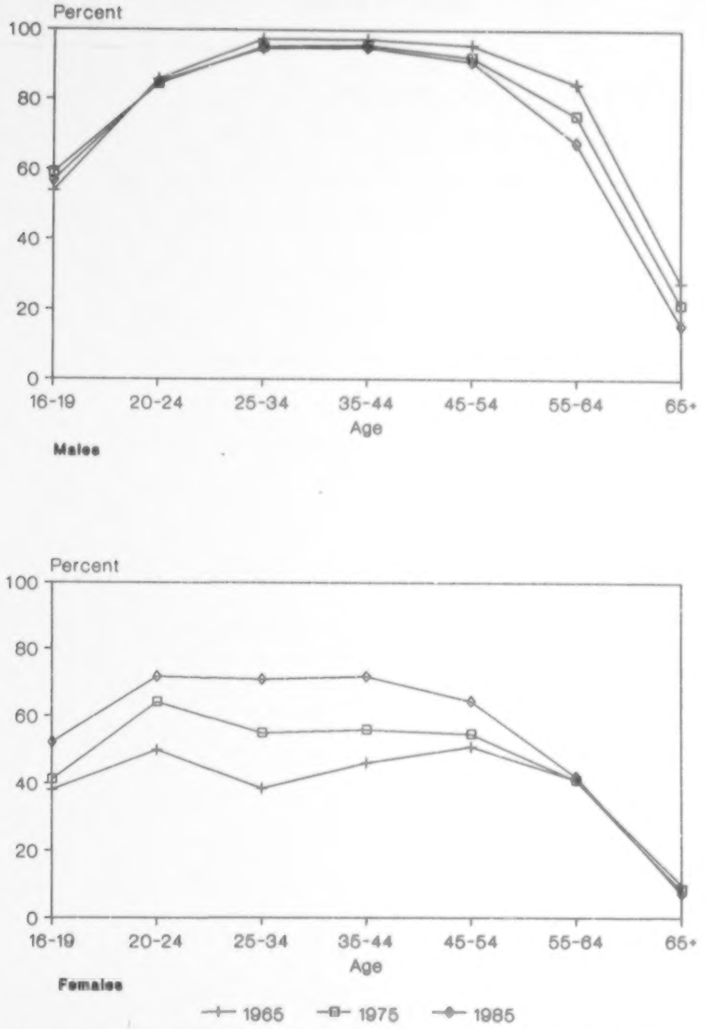
Chart 2.2: Civilian Labor Force Participation Rates by Sex, 1948-1987



Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

Chart 2.3 shows male and female civilian labor-force participation by age from 1965 to 1985 in 10-year intervals. For men age 16 to 54, both the pattern and level of labor-force participation were fairly stable over time. Male labor force participation in each year started out near 60 percent among 16- to 19-year-olds, increased to more than 80 percent among 20- to 24-year-olds and to more than 95 percent among the 25 to 34 and 35 to 44 age brackets, then declined slightly among the 45 to 54 age bracket. Male labor-force participation declined further among 55- to 64-year-olds, and this decline has been greater in recent years, with more men retiring at a relatively young age. Labor-force participation declines again even more sharply among men age 65 and older; this group is the only one with a lower participation rate than teen-age males. Labor-force participation among this oldest group has been lower in recent years than earlier, probably because of the increased prosperity of this age group. Overall male labor-force participation describes an "n"-shaped pattern, with participation rates increasing, then reaching a plateau before declining.

Chart 2.3: Male and Female Civilian Labor Force Participation Rates by Age 1965-1985



Source: Chart prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

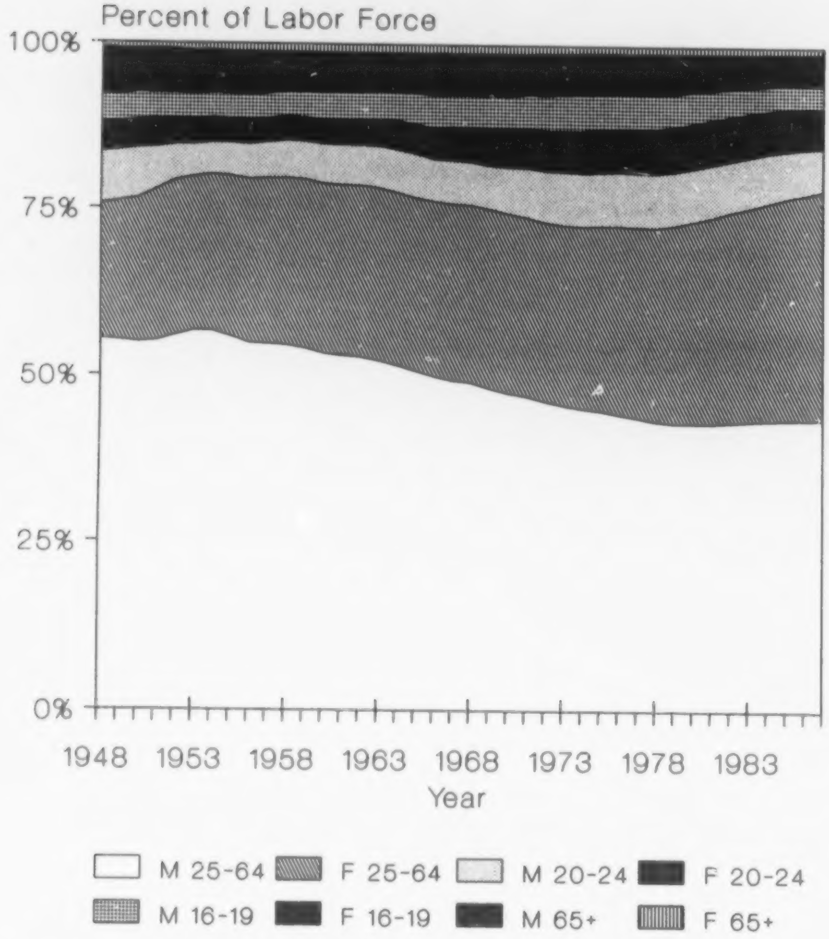
Female civilian labor-force participation has changed markedly since 1965. As chart 2.3 shows, in 1965 the pattern of female labor-force participation was quite unlike that of men. While the pattern of male labor-force participation described an "n," female labor-force participation followed an "m"-shaped pattern across age groups. Like their male counterparts, women's labor-force participation increased from their teens to their twenties. But while male labor-force participation increased again from the early to late twenties, for women it decreased. For women these years served as prime child-rearing years, not prime labor-force participation years. Women's labor-force participation increased among those age 35 to 44 (whose youngest child was more likely to be in school) and again among those age 45 to 54 (whose children were still older). Labor-force participation then began to drop among those age 55 to 64 and declined still further among the 65 and older age group.

As chart 2.3 shows, in each 10-year interval since 1965, female civilian labor-force participation has changed in two ways. First, the level of participation has increased, except among the age 65 and older bracket. Second, the "m" pattern has evolved into an "n"-shaped curve similar to that of men, as more and more women in the 25 to 34 age bracket have joined the labor force. The "v" in the "m" pattern has almost completely flattened, as the fertility rate declined and as more mothers of young children entered or remained in the labor force. While the age pattern of female labor-force participation has become more similar to that of men, women still have lower labor-force participation rates than men in each age bracket.

As a result of demographic changes and changes in labor force participation rates, the labor force composition has changed. Chart 2.4 shows the composition of the labor force by sex and age, 1948 to 1987. In 1948 a majority of the labor force--56 percent--consisted of men age 25 to 64. These "prime age" males have declined as a percent of the labor force; in the 1978 to 1987 period they have represented about 43 percent of the civilian labor force. Women age 25 to 64 represented only 20 percent of the labor force in 1948, but by 1978 they represented 29 percent and in 1987 34 percent.

Younger adults, those age 20 to 24, increased as a share of the labor force just as they increased as a share of the population during the 1960s and 1970s. This trend was reversed in the 1980s. Workers age 16 to 19 exhibit a similar trend. Workers age 65 and older have declined steadily as a percent of the labor force since the 1950s. Although the proportion of the population in this age group has been growing, labor force participation rates have been dropping faster, resulting in a decline in the percent of the labor force over age 65.

Chart 2.4: Composition of Labor Force by Sex and Age, 1948-1987



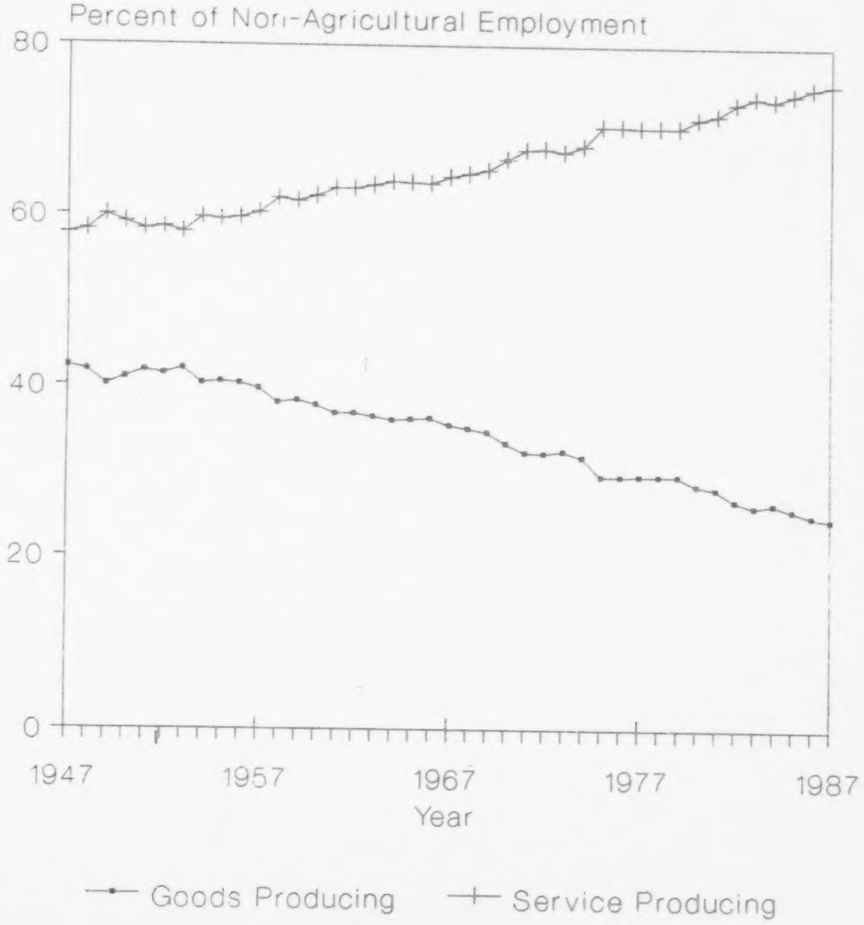
Source: Prepared by CRS based on data from BLS.

While the number of workers increased over time, the average number of hours worked per week has declined. In 1947, workers in private nonagricultural jobs worked an average of 40.3 hours per week. This figure has declined slowly but steadily since then; in 1987, workers averaged 34.8 hours per week. 3/

As the economy has changed over time, there has been a shift in civilian employment. Since the late 1940s, agricultural employment has declined almost continuously as a share of total civilian employment. As agricultural productivity has increased, agricultural employment has decreased from 14 percent of total employment in 1947 to less than three percent in 1987. In the nonagricultural sector, the percent of workers employed in service-producing industries has increased, with a corresponding decrease in the percent of workers employed in goods-producing industries. (See chart 2.5.) In 1947, 58 percent of nonagricultural employment was in service-producing industries. By 1970, this figure had increased to 65 percent and by 1987 to 76 percent.

3/ U.S. Executive Office of President. Economic Report of the President. Washington, U.S. Govt. Print. Off., Feb. 1988. Table B-44. p. 298.

Chart 2.5: Division of Labor Force Between Goods and Service Producing Industries, 1947-1987



Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

B. Trends in Civilian Unemployment

The total unemployment rate (TUR) is the percent of the civilian labor force that is out of work and actively seeking employment. 4/ Table 2.1 shows the TUR from 1947 to 1987. The average annual TUR has ranged from a low of 2.9 percent in 1953 to a high of 9.7 percent in 1982. 5/

TABLE 2.1. Total Unemployment Rates, 1947-1987

Year	TUR (percent)	Year	TUR (percent)
1947	3.9	1968	3.6
1948	3.8	1969	3.5
1949	5.9	1970	4.9
1950	5.3	1971	5.9
1951	3.3	1972	5.6
1952	3.0	1973	4.9
1953	2.9	1974	5.6
1954	5.6	1975	8.5
1955	4.4	1976	7.7
1956	4.1	1977	7.1
1957	4.3	1978	6.1
1958	6.8	1979	5.8
1959	5.5	1980	7.1
1960	5.5	1981	7.6
1961	6.7	1982	9.7
1962	5.5	1983	9.6
1963	5.7	1984	7.5
1964	5.2	1985	7.2
1965	4.5	1986	7.0
1966	3.8	1987	6.2
1967	3.8		

4/ Persons who are out of work and not actively seeking employment are not considered part of the labor force, even if they want jobs.

5/ Unless otherwise specified, throughout this chapter TUR refers to the average annual figure.

1. Duration of Unemployment

The average (mean) length of unemployment is closely related to the TUR. Chart 2.6 shows both the mean duration of unemployment and the TUR from 1947 to 1986. The more unemployed workers there are, the longer they can expect to be unemployed on average.

The average duration of unemployment appears to be increasing slightly over time. From 1948 to 1959, the average of the annual means was 11.0 weeks. This figure has increased in each decade since. In the 1960s it was 11.8 weeks, in the 1970s it was 11.9 weeks, and in the 1980-1986 period, the average annual figure for mean duration of unemployment rose to 15.6 weeks.

Chart 2.6: Total Unemployment Rate and Mean Duration, 1947-1986

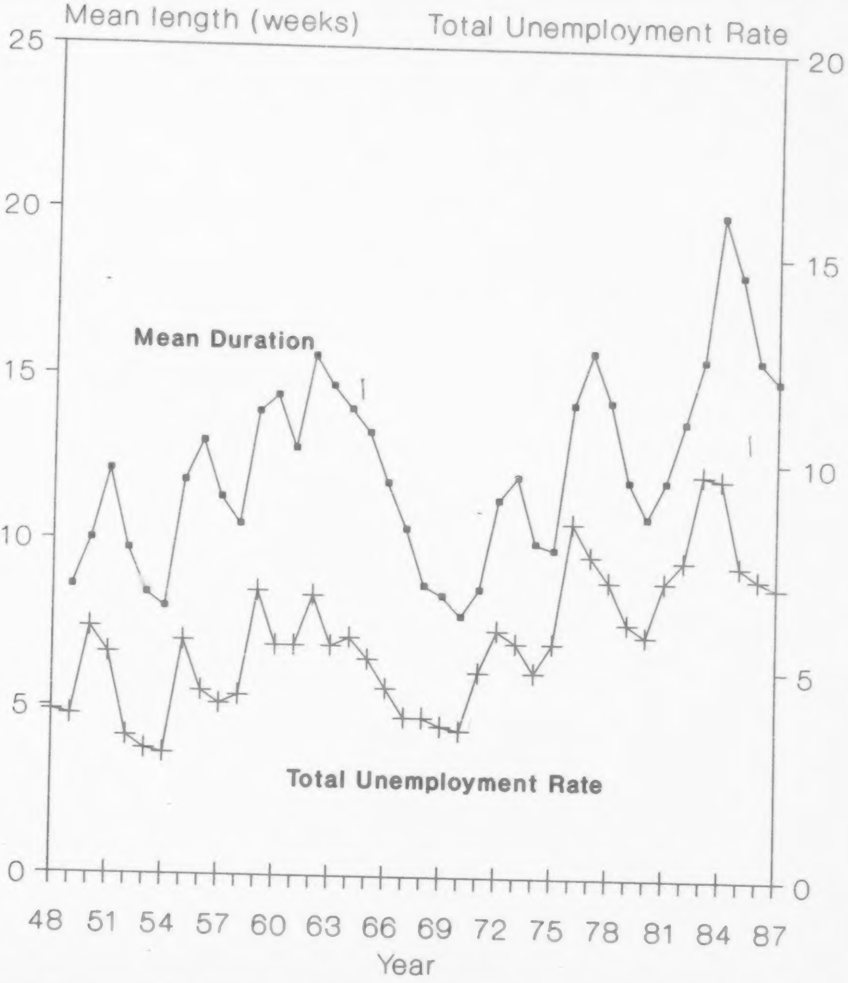
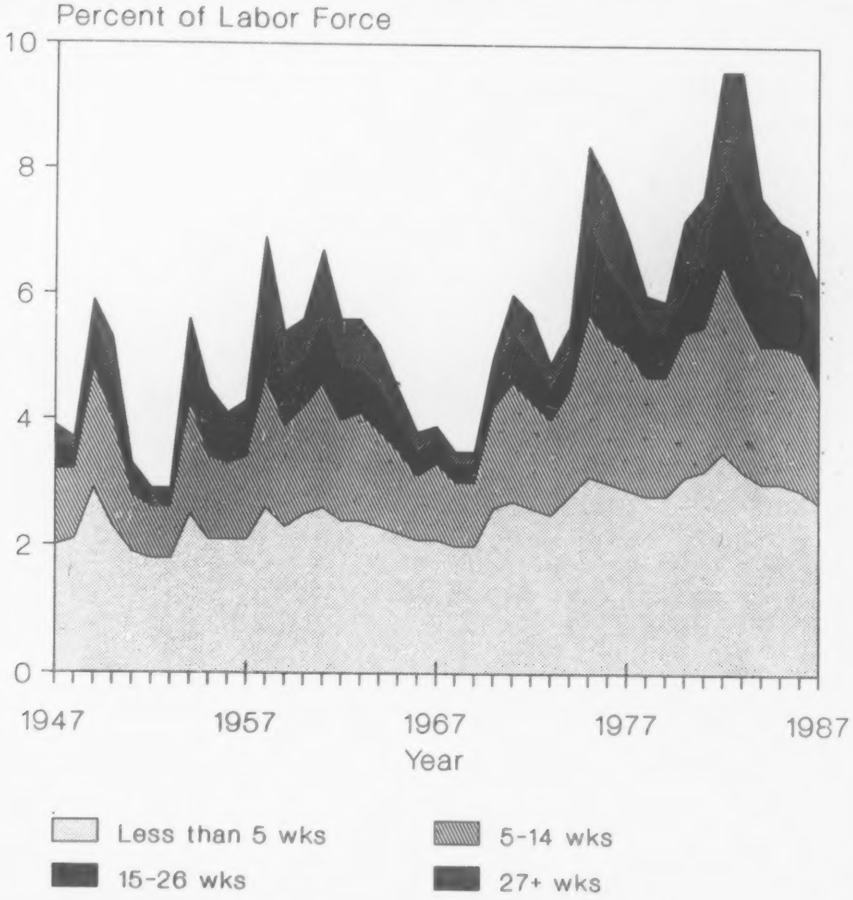


Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

Chart 2.7 shows duration of unemployment as a percent of the labor force from 1947 to 1987 in four categories: unemployment of less than 5 weeks duration, 5 to 14 weeks, 15 to 26 weeks, and 27 or more weeks. Note that the percent of the labor force facing short term unemployment--less than 5 weeks--does not vary much from year to year. The percent of the labor force facing unemployment ranging from 5 to 14 weeks increases somewhat with the TUR, but not by much. Long-term unemployment, 15 to 26 weeks and especially 27 weeks or more, varies strongly with the TUR.

Chart 2.7: Unemployment Rate by Duration of Unemployment
1947-1987

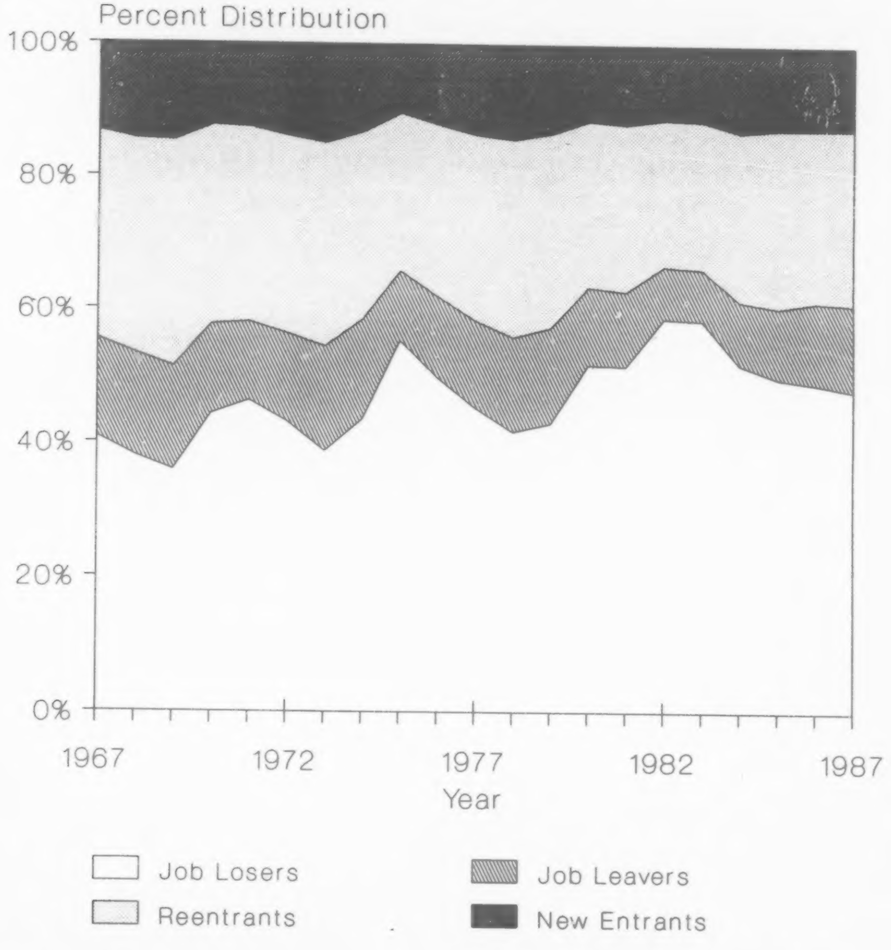


Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

2. Types of Unemployed Workers

The Department of Labor (DoL) classifies unemployed workers into four groups: job losers, job leavers, reentrants (persons who have returned to the labor force after an absence but fail to obtain a job), and new entrants. Chart 2.8 shows the distribution of these types of jobless workers from 1967 to 1987. In each year, even years of relatively low unemployment, a plurality of the unemployed were job losers; in the high unemployment years of 1975, 1982 and 1983, a majority were job losers. Reentrants were the second largest group of unemployed.

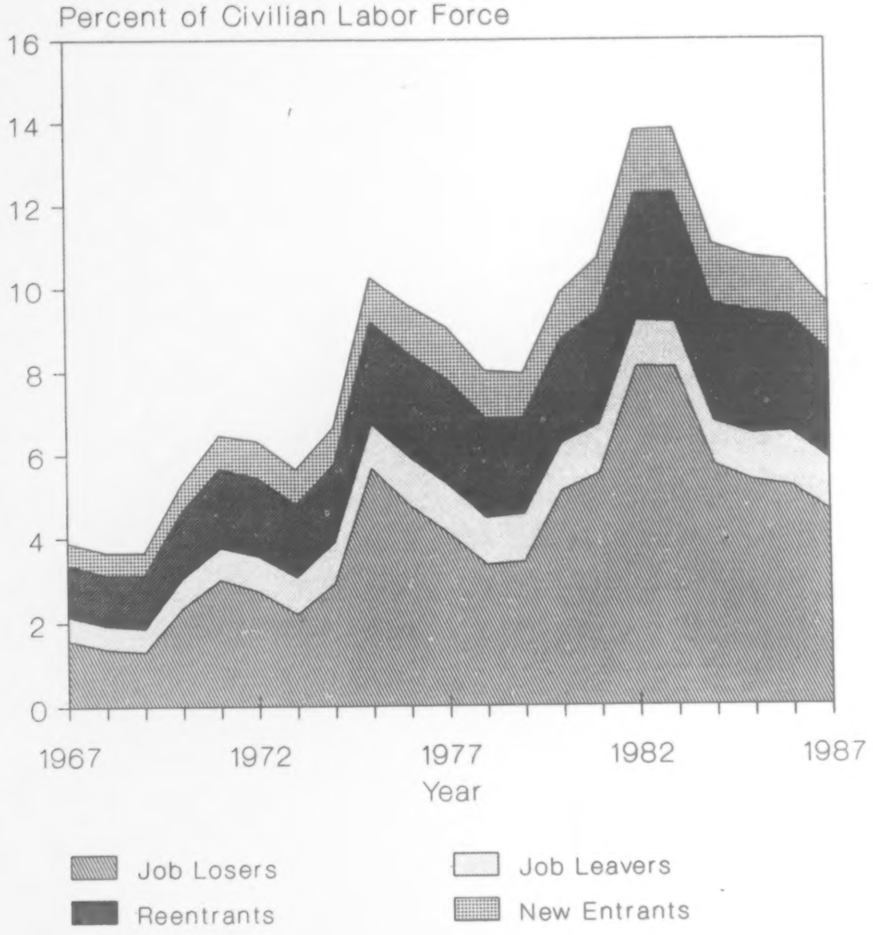
Chart 2.8: Distribution of Unemployed Workers by Type, 1967-1987



Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

Chart 2.9 shows each type of jobless worker as a share of the labor force, 1967 to 1987. Although the labor force was expanding during this period as baby boomers reached working age and female labor force participation increased, it was job loss that seemed to drive the unemployment rate. Job losers constituted just over 2 percent of the labor force in 1973, but during the high unemployment years 1982-1983 more than 5 percent of the labor force was unemployed due to job loss. The share of the labor force in the other unemployment categories did not vary much from year to year. Job leavers made up about 0.8 percent of the labor force; about the same proportion of workers left their jobs of their own volition in bad economic times as in good. Unemployed reentrants made up about 1.5 to 2.0 percent of the civilian labor force during this period. Unemployed new entrants made up about 0.5 to 1.0 percent.

Chart 2.9: Unemployment Rate by Type of Unemployed Worker, 1967-1987

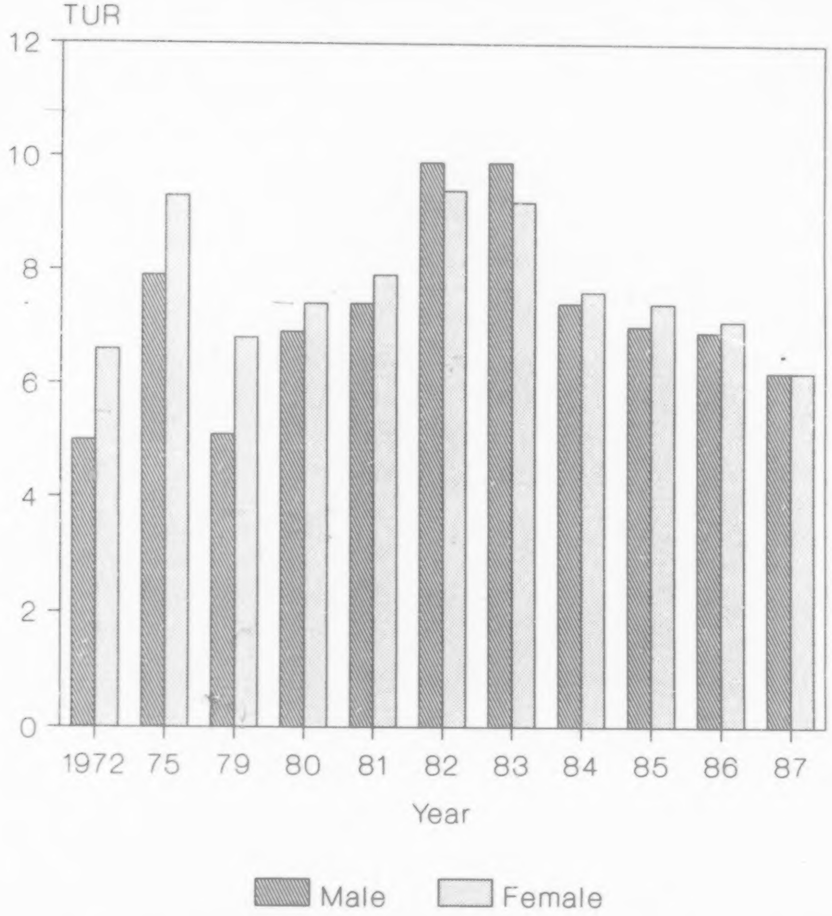


Source: Chart prepared by CRS based on data from BLS cited in the Economic Report of the President, February 1988.

3. Trends in Concentration of Unemployment

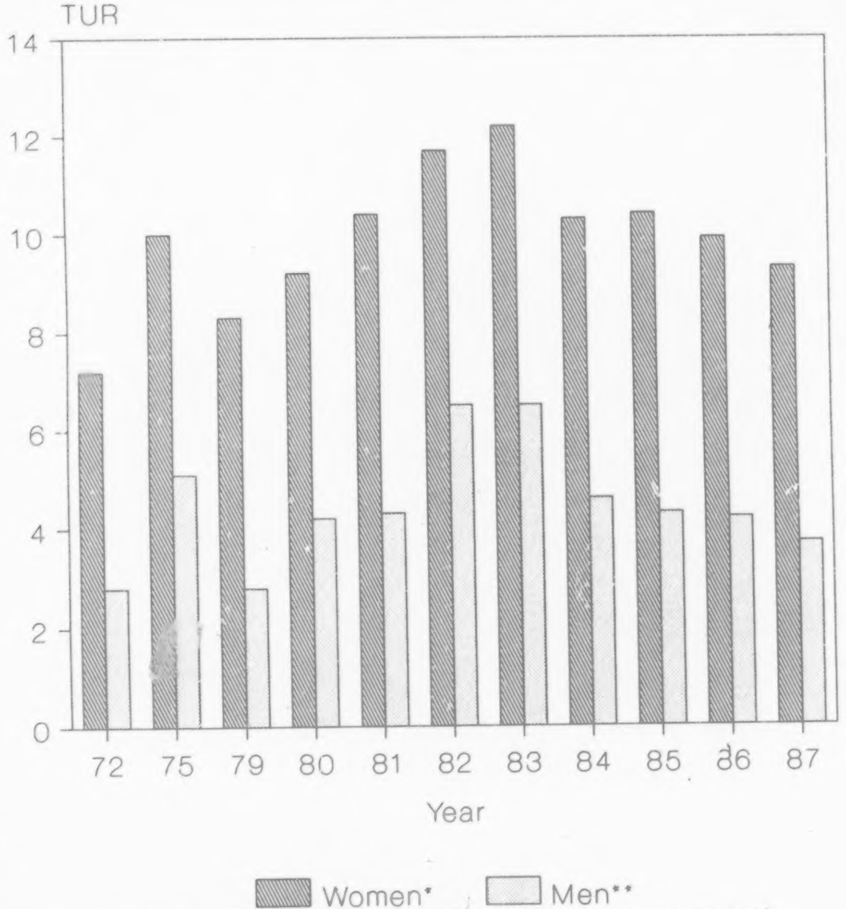
a. Total unemployment and demographic characteristics. Not all population groups are equally likely to be unemployed. Charts 2.10, 2.11 and 2.12 show the unemployment rate by sex, householder status, and race and Hispanic origin for 1972, 1975, and 1979 through 1987. In each year except 1982 and 1983, women have had higher unemployment rates than men. The differences between the rates for men and women were not great, usually less than two percentage points. When householder status is compared, a different picture emerges. While the disparity in unemployment rates for all men and women was fairly small, women maintaining families had much higher unemployment rates than did married men.

Chart 2.10: Civilian Unemployment Rates by Sex Selected Years, 1972-1987



Source: Chart prepared by CRS based on data from BLS cited in the Statistical Abstract of the United States, 1987.

Chart 2.11: Civilian Unemployment Rates by Householder Status, Selected Years, 1972-1987

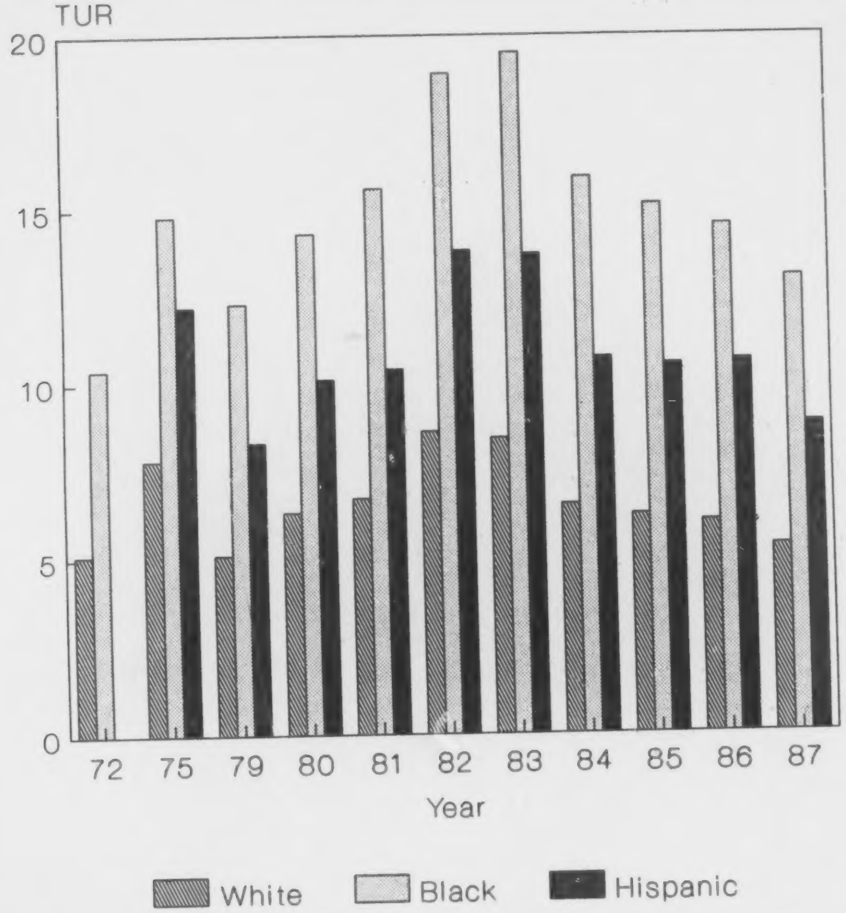


*Women maintaining families; **Married men, spouse present

Source: Chart prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

Chart 2.12 shows unemployment rates from 1972 to 1987 by race and ethnicity: whites, blacks, and Hispanics. In each year, rates for whites are lowest, rates for Hispanics are higher, and rates for blacks are higher still. In 1983, the year in the period with the highest overall TUR, the TUR was 9.6 percent. The rate for whites was 8.4 percent, for Hispanics 13.7 percent, and for blacks the unemployment rate was 19.5 percent, more than twice as high as the overall rate. Similarly, the average duration of unemployment varies with race, with blacks experiencing longer spells of unemployment than whites on average.

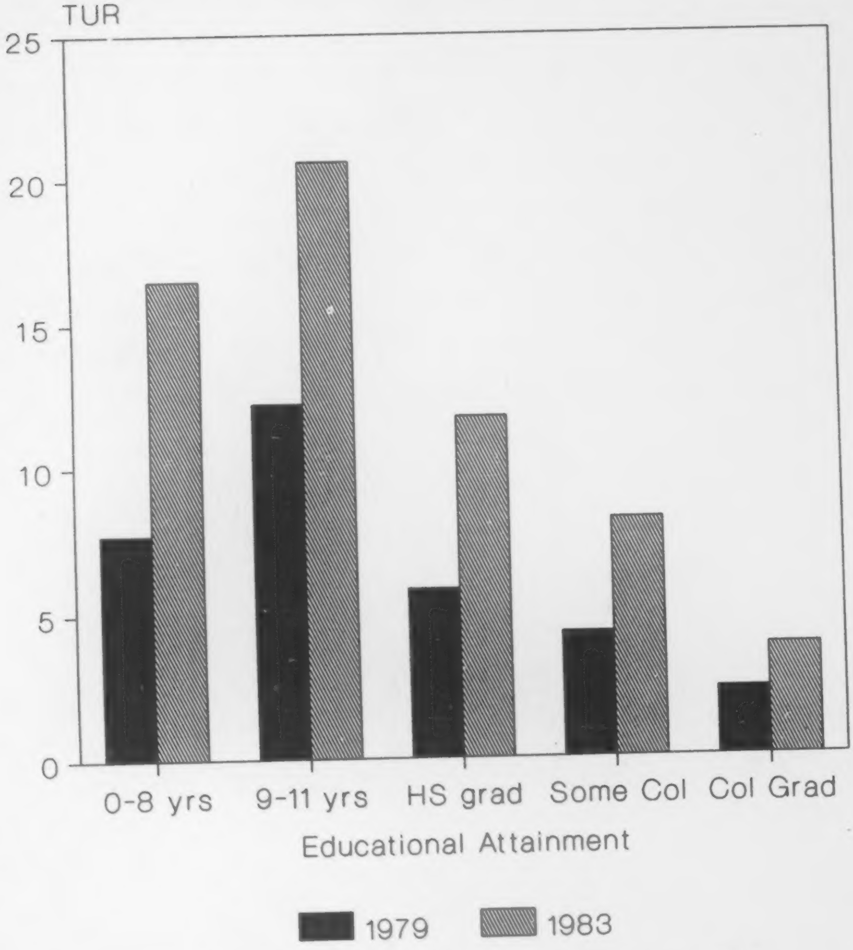
Chart 2.12: Civilian Unemployment Rates by Race and Hispanic Origin, Selected Years, 1972-1987



Source: Chart prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

Unemployment was also significantly related to level of education. Chart 2.13 shows the TUR by level of education for 1979, when the TUR was relatively low, and 1983, when the TUR was relatively high. In both years, workers with 9 to 11 years of schooling had the highest unemployment rate. Workers with 8 years or fewer of schooling had slightly lower rates than workers who had attended high school but not graduated. High school graduates had TURs close to the average TUR, while workers with college educations had the lowest rates.

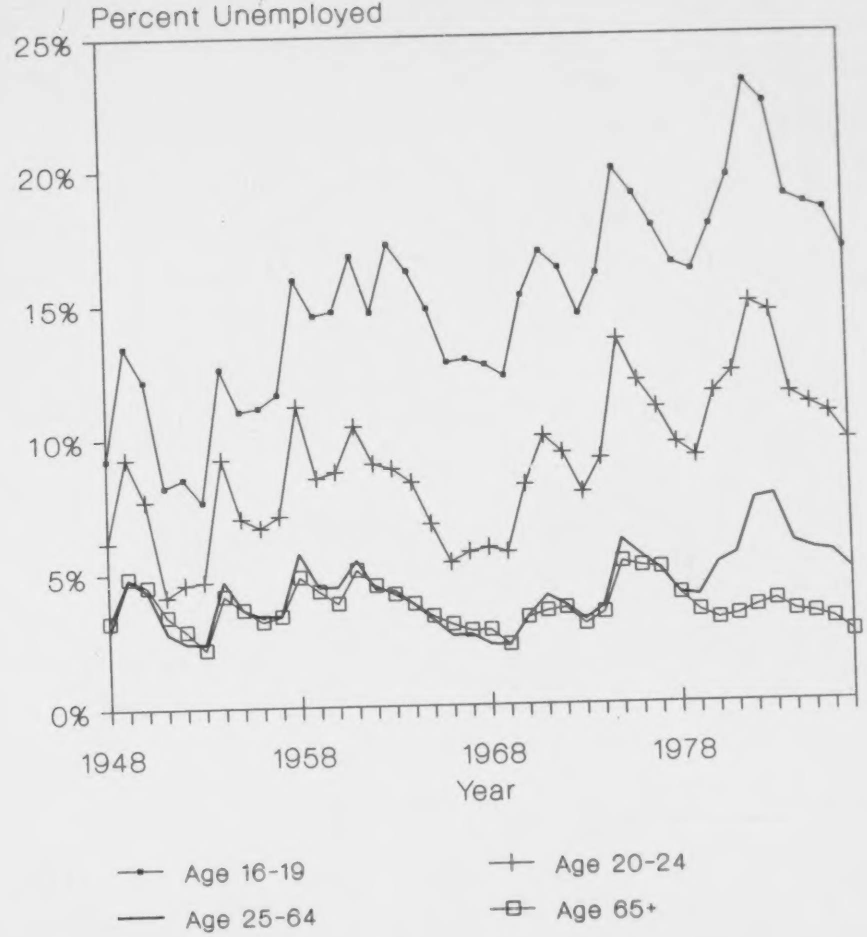
Chart 2.13: Unemployment Rate by Educational Level, 1979 and 1983



Source: Chart prepared by CRS based on data from BLS.

Unemployment rates were also influenced by age. Chart 2.14 shows TUR by age bracket from 1948 to 1987. Teenage workers had the highest TURs, followed by workers age 20 to 24. Workers age 25 to 64 and workers age 65 and older had the lowest rates. From 1948 to 1978, the TURs for these two age groups were quite similar. Since 1979, the TUR for workers age 65 and older has been lower than that of workers age 25 to 64. This trend occurred at the same time that the labor force participation of the population age 65 and older has declined. The relatively low TUR for older workers in recent years might be the result of unemployed workers age 65 and older dropping out of the labor force when they lose their jobs, or it could be due to a selection factor; only the most employable of older workers may still be in the labor force. Better pensions may make it more possible for retirees to stay completely out of the labor force. Also, enactment of pension offset may have stopped retirees from reporting themselves as unemployed and looking for work.

Chart 2.14: Unemployment Rates by Age, 1948-1987



Source: Chart prepared by CRS based on data from BLS.

As discussed above, unemployment was related to both race and Hispanic origin, and to education, with blacks, Hispanics and the less educated experiencing higher levels of unemployment. The question arises as to whether blacks and Hispanics experienced higher than average rates of unemployment because of their lower than average educational attainment. Table 2.2 shows unemployment rates by race and level of education from 1970 to 1986. At each level of education, blacks and Hispanics experienced higher levels of unemployment than whites. The effects of minority status and low educational attainment were especially severe in recessions. Among those with 1 to 3 years of high school, 19.0 percent of whites, 23.9 percent of Hispanics and 29.5 percent of blacks were unemployed in March 1983.

TABLE 2.2. Unemployment Rate by Race, Hispanic Origin and Education

	Year										
	1970	1975	1978	1979	1980	1981	1982	1983	1984	1985	1986
White											
Total*	3.9	8.5	5.8	5.4	6.0	7.0	8.6	9.7	7.2	6.6	6.6
1-3 yr HS	5.7	14.0	10.7	10.9	11.6	13.5	17.0	19.0	15.2	14.2	13.5
4 yr HS	3.6	8.4	5.5	5.0	5.9	7.2	9.1	10.3	7.4	7.0	7.0
1-3 yr col	3.7	6.6	4.1	3.8	4.4	4.4	5.8	7.0	5.1	4.2	4.5
4+ yr col	1.5	2.8	2.3	2.1	1.9	2.3	2.9	3.4	2.5	2.3	2.3
Black											
Total*	6.7	14.7	13.2	12.6	13.4	15.9	18.9	21.0	17.1	15.6	15.0
1-3 yr HS	9.5	22.0	21.6	19.6	20.5	24.7	24.1	29.5	27.1	24.7	24.7
4 yr HS	7.2	15.2	12.7	12.8	13.1	16.4	20.7	22.8	18.3	16.2	16.1
1-3 yr col	6.1	10.1	10.4	8.8	10.8	11.8	15.8	17.3	12.0	12.3	10.5
4+ yr col	1.4	3.9	4.7	4.2	4.4	4.0	8.3	8.5	6.3	5.8	3.6
Hispanic											
Total*	**	12.8	9.5	8.7	9.2	11.2	13.4	16.3	11.7	11.3	10.6
1-3 yr HS	**	18.4	14.0	14.6	14.3	17.0	21.8	23.9	18.4	15.7	17.1
4 yr HS	**	10.5	7.4	8.2	7.1	9.7	11.4	14.4	9.7	9.5	8.9
1-3 yr col	**	7.9	7.3	6.5	5.9	6.3	7.1	10.9	7.6	7.4	6.8
4+ yr col	**	3.6	7.3	3.6	3.7	2.8	4.9	6.8	3.6	3.1	3.2

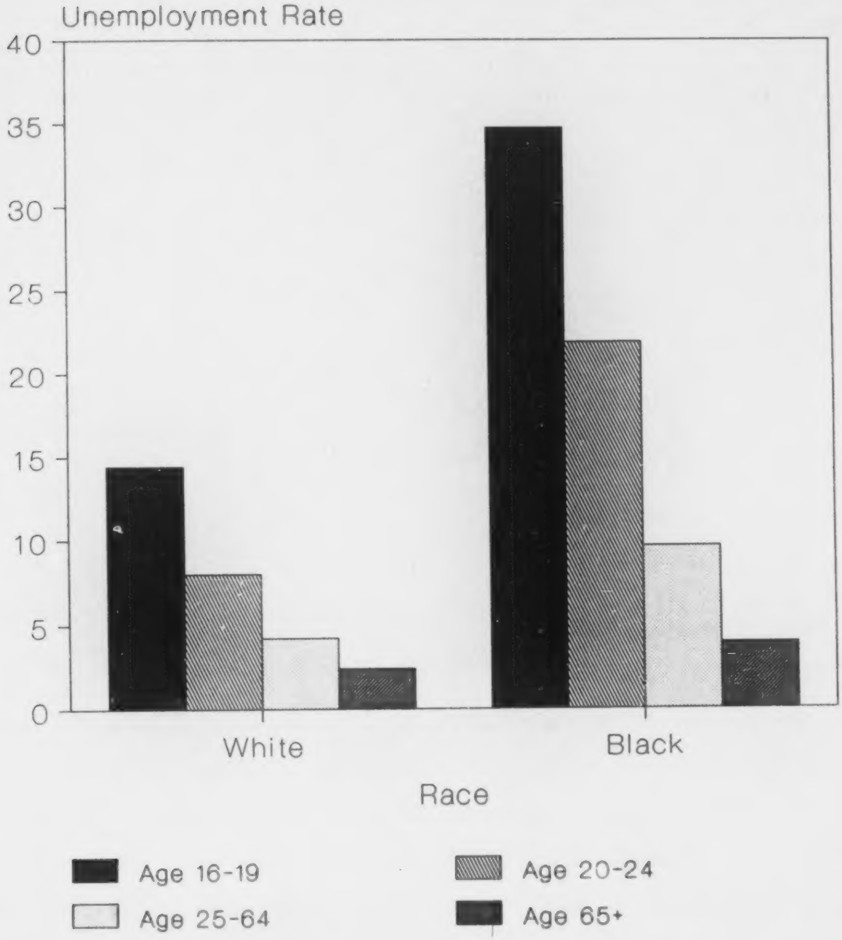
* Totals include those with less than a ninth grade education.

** Data for Hispanics is not available in 1970.

Source: Table prepared by CRS based on data from the Statistical Abstract of the United States, 1987.

The combination of youth and minority status also produced very high unemployment rates. Chart 2.15 shows unemployment for blacks and whites by age bracket in 1987. Among black teenagers, the unemployment rate in 1987 was 35 percent, 20 percentage points higher than the rate for white teenagers. Unemployment among blacks age 20 to 24 was also much higher (22 percent) than among whites in the same age bracket (8 percent). Substantial white-black gaps also existed among those age 25 to 64 and age 65 and older.

Chart 2.15: Unemployment Rates by Race and Age, 1987



Source: Chart prepared by CRS based on data from BLS.

b. Unemployment by region. The national unemployment rate reflects the state of the national economy. However, specific regions fare better or worse than the national average. An examination of unemployment by region reveals a variety of patterns influenced by regional economic trends. Table 2.3 shows unemployment by region from 1981 to 1987. The average U.S. unemployment rate during this period was 7.8 percent, with a low of 6.2 percent in 1987 and highs of 9.7 and 9.6 percent in 1982 and 1983. All but two of the regions--West South Central and Mountain--experienced their lowest rates for the period in 1987, and all of the regions experienced their highest rate in 1982 or 1983. The East South Central region experienced the highest level of unemployment during this period, with an average of 10.1 percent, and the East North Central experienced the second highest, with an average of 9.6 percent. In each year, these two regions experienced a TUR above the national average. The New England area had the lowest levels of unemployment during this period, with an average rate of 5.3 percent. The West North Central and South Atlantic regions along with New England had TURs lower than the national TUR in each year. The West South Central region had a TUR below that of the U.S. in the 1981 to 1985 period, but its TUR was higher in the 1985 to 1987 period. This region, which has been hurt by falling energy prices, had the highest TUR of any region in the 1986 to 1987 period.

It should be noted that regional and State unemployment rates are affected by shifts in the size of States' labor force, as workers move from one State (or region) to another. For example, assume that 1,000 persons (10%) are unemployed out of a State's labor force of 10,000. If 500 jobless persons leave the State, there will be 500 jobless persons out of a labor force of 9,500, an unemployment rate of 5.3 percent. However, the national unemployment rate would not be altered, as the total size of the unemployed population and the labor force would be unchanged. 6/

6/ For a fuller discussion of the issue, see Changes in the Regional Distribution of the Nation's Labor Force and Unemployment, 1970-1977: The Concept of Unemployment-Labor Force Shares Equality. CRS Report no. 78-209 EPW. HD 5706. Oct. 18, 1978. By Charles V. Ciccone and Gregg A. Esenwein.

TABLE 2.3. Unemployment by Region

	1981	1982	1983	1984	1985	1986	1987
United States	7.6	9.7	9.6	7.5	7.2	7.0	6.2
New England a/	6.3	7.8	6.8	4.9	4.4	3.9	3.3
Middle Atlantic b/	7.8	9.4	9.4	7.6	6.8	6.2	4.9
East North Central c/	9.7	12.5	12.0	9.4	8.8	7.9	7.2
West North Central d/	6.0	7.8	7.9	6.2	6.2	5.8	5.5
South Atlantic e/	7.0	8.7	8.5	6.5	6.1	5.7	5.1
East South Central f/	9.2	12.1	12.3	9.8	9.0	9.4	8.0
West South Central g/	5.9	7.5	8.9	7.0	7.9	9.5	8.8
Mountain h/	6.3	8.7	8.6	6.2	6.8	7.4	7.2
Pacific i/	7.8	10.2	9.9	8.1	7.4	7.0	6.0

a/ Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

b/ New Jersey, New York and Pennsylvania.

c/ Illinois, Indiana, Ohio, Michigan and Wisconsin.

d/ Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

e/ Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia.

f/ Alabama, Kentucky, Mississippi and Tennessee.

g/ Arkansas, Louisiana, Oklahoma and Texas.

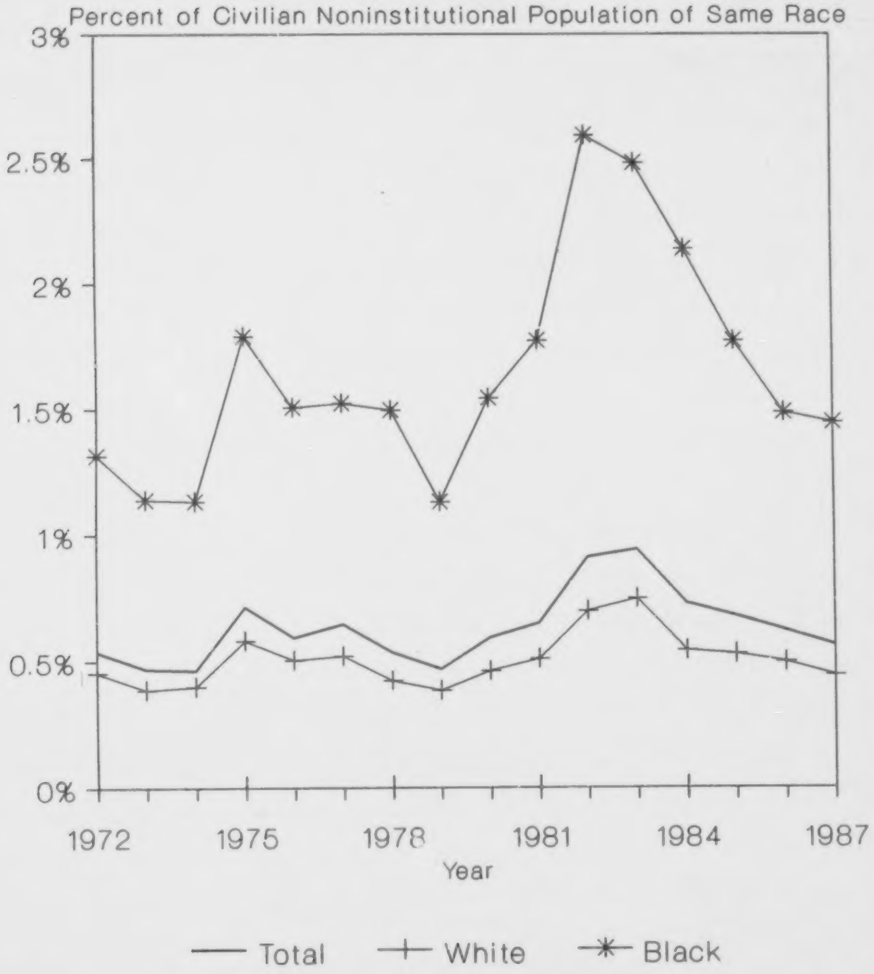
h/ Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah and Wyoming.

i/ Alaska, California, Hawaii, Oregon and Washington.

c. **Discouraged workers**. As noted above, only those jobless persons who are actively seeking employment are counted as part of the labor force and considered to be unemployed. However, there are also jobless individuals who would like to work, do not have a job, and are not actively seeking employment. These discouraged workers feel that they will be unable to find jobs, either because of job market factors or personal factors. Chart 2.16 shows discouraged workers as a percent of the civilian noninstitutional population age 16 and older by race for 1972 to 1987. These discouraged workers represent less than 1 percent of the civilian noninstitutional population. Rates for blacks, however, are higher than for whites. In 1982 2.5 percent of blacks wanted a job but thought they could not find one, compared to 0.6 percent of whites. If jobless workers who no longer are looking for a job because of discouragement were counted in the labor force, the measured unemployment rate would be higher. For example, assume that 1,000 persons out of a labor force of 10,000 are unemployed. This would mean an unemployment rate of 10 percent.

If 400 jobless workers gave up searching for a job, they would be excluded from the count of unemployed persons and from the labor force. There then would be 600 "unemployed" persons out of a labor force of 9,600, an unemployment rate of 6.3 percent.

Chart 2.16: Discouraged Workers by Race 1972-1987



Source: Chart prepared by CRS based on data from BLS.

II. PROGRAM TRENDS

The UC program trends, like the economic trends discussed in the previous section, can be classified as either cyclical or secular. As one would expect, the number of UC beneficiaries, total benefit payments, and duration of UC benefit receipt show strong countercyclical trends; that is, they are higher during periods of recession. Trends in UC receipts and trust fund reserves show procyclical trends, growing during economic expansions and declining during recessions.

The proportion of the labor force covered by UC and UC benefit levels themselves have been affected by secular economic trends. From 1939 to 1965, the proportion of the labor force covered by UC increased as the composition of the labor force shifted from noncovered sectors (self-employed and agricultural workers) to covered sectors (wage and salaried workers). From the program's inception to 1970, real wage growth increased the constant-dollar value of benefits.

In addition to reflecting the condition of the economy, UC program trends are also influenced by changes in policy. For example, changes in Federal policy restricting eligibility for the extended benefits (EB) program are very evident in the trends in UC beneficiaries and total benefit payments.

A. Coverage

When UC coverage is discussed, it is important to make the distinction between being employed in a job covered by UC (that is, a job where the employer pays UC taxes on a worker's wage) versus being eligible for UC upon becoming unemployed. Working in a job covered by UC is a necessary but not a sufficient condition for receiving benefits when an individual becomes unemployed. An unemployed worker must meet other conditions also to receive benefits.

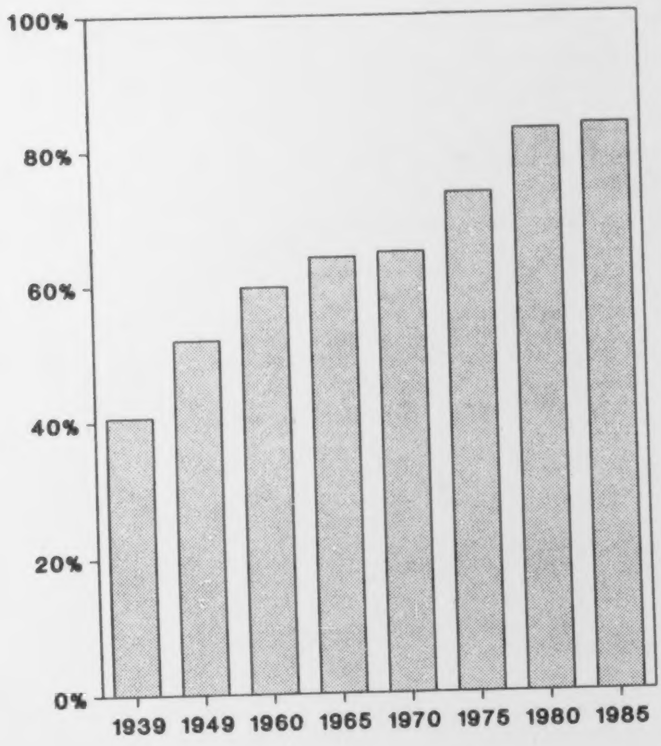
1. Workers in Jobs Covered by UC

In 1985, workers representing 84 percent of the total labor force were in jobs covered by UC. 7/ They included almost all wage and salaried workers.

The proportion of the labor force covered by UC has grown over time. Chart 2.17 shows the proportion of the labor force covered by UC, for selected years, 1939 to 1985.

7/ U.S. Department of Health and Human Services. Social Security Administration. Social Security Bulletin, Statistical Abstract 1987, Table 4, Washington: 1987. p. 69.

Chart 2.17: Percent of the Total Labor Force Covered by Unemployment Compensation For Selected Years, 1939-1985



Note: Monthly averages for 1939 and 1949; as of December for later years.

Source: Chart prepared by CRS based on data from U.S. HHS, Social Security Bulletin, Annual Statistical Supplement, Various Years.

Trends in coverage can be divided into two distinct eras: pre-1970 and post-1970. Before 1970, the rise in the proportion of the labor force covered by UC was due primarily to changes in the composition of the labor force, rather than to legislated changes in program coverage. In 1970, however, legislation was enacted that significantly expanded coverage, bringing most of the paid workforce under the UC program.

The chart shows that the proportion of the labor force covered by UC grew steadily from 1939 to 1965, rising from 40 percent to about 67 percent, and then remained flat from 1965 to 1970. The increase in coverage from 1939 to 1965 stemmed primarily from shifts in employment away from noncovered sectors (such as the self-employed and agricultural workers) to employment largely covered by UC (nonagricultural wage and salary workers). In 1939, wage and salary workers accounted for 59.7 percent of the labor force, rising to 82.1 percent in 1970. From 1939 to 1970, self-employed workers declined from 18.7 percent to 7.9 percent of the labor force. 8/

The Social Security Act of 1935 excluded from coverage workers in firms with fewer than eight employees; workers in agriculture; Federal, State, and local government employees; employees of nonprofit organizations; and household workers. 9/ Legislation enacted in 1954 expanded coverage to Federal employment and to jobs with employers of four or more workers, effective in 1955 and 1956, respectively. This legislation was the only legislated change from 1939 to 1970 that affected the proportion of the labor force covered by UC.

8/ The other major categories of workers, as reported in the Social Security Bulletin are: unpaid family workers, the unemployed, and members of the Armed Forces.

9/ U.S. Department of Labor. Employment and Training Administration. Fifty Years of Unemployment Insurance--A Legislative History: 1935-1985. Unemployment Insurance Service Occasional Paper 86-5, 1986. p. 11.

The Employment Security Amendments of 1970 (P.L. 91-373) provided the most significant expansion of UC coverage. The law required UC coverage for all private-sector employees in firms with one worker or more and covered State and local government workers. Thus, UC was extended to nearly all wage and salary employees, with the major excluded group being the self-employed. The information in chart 2.17 for 1975 to 1985 reflects this expanded coverage.

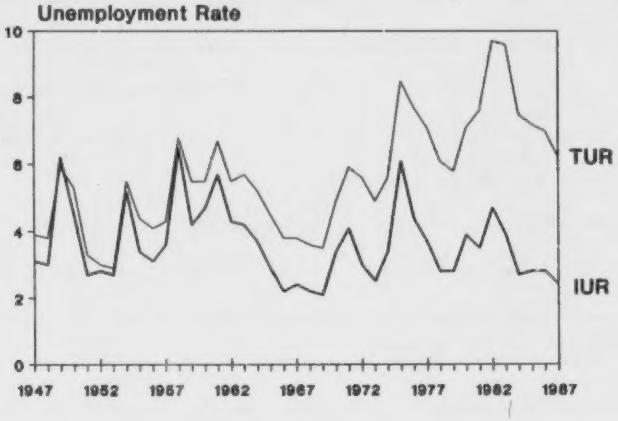
2. Insured and Total Unemployment

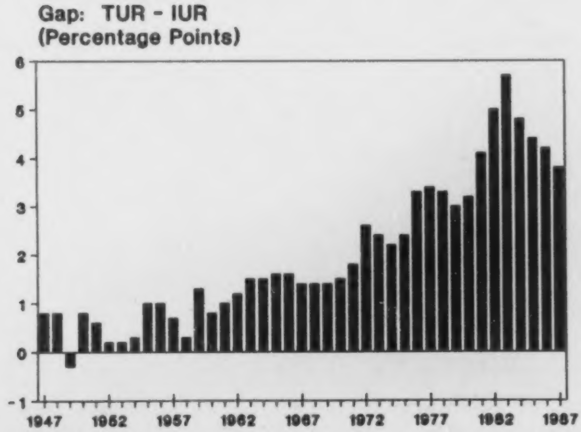
Work in a job covered by UC is a necessary but not sufficient condition for receiving benefits upon becoming unemployed. Workers must also have worked a minimum time and/or earned a certain minimum, and generally be unemployed for economic reasons (for example, laid off). Thus, the expansion of coverage does not, by itself, imply that a greater share of the unemployed will receive benefits. As discussed in chapter 4, fewer of the unemployed receive benefits in the 1980s than in any earlier period. This drop in the proportion of unemployed who receive benefits is not due to fewer workers in jobs covered by UC, however.

The insured unemployment rate represents the ratio of UC claimants to total covered employment. 10/ Chart 2.18 shows the insured unemployment rate and the total unemployment rate for 1948 to 1987.

10/ Technically, the insured unemployment rate is a ratio, not a rate. At any point in time, UC claimants and workers in covered employment are different people; that is, UC claimants are not a subset of workers in covered employment. A rate requires the numerator to be a subset of the denominator.

Chart 2.18: Insured and Total Unemployment Rates, 1947-1987





Source: Chart prepared by CRS based on data from DoL.

The chart shows the growing divergence between the insured and total unemployment rates. 11/ The gap between these two measures shows a secular increase from 1947 to 1979, and then a sharp rise occurring in the 1980 to 1983 period. This sharp rise coincided with the highest unemployment rate of the post-World War II era. In 1982, the total unemployment rate reached (an annual average of) 9.7 percent, while the insured unemployment rate was 4.7 percent. During the recovery following the 1981-1982 recession, the insured unemployment rate declined to 2.4 percent in 1987, a year when the total unemployment rate dropped to 6.2 percent.

The divergence between the total unemployment rate and the insured unemployment rate is an indication that a declining proportion of the unemployed have been receiving benefits. Chapter 4 of this report discusses some of the possible factors contributing to this trend.

The insured unemployment rate also varies by State. Some of this variation reflects the relative health of a State's economy; however, some of the variation is likely caused by differences in each State's eligibility and duration of benefit rules. Table 2.4 shows the insured unemployment rate by State from 1970 to 1986.

11/ The insured unemployment rate and the total unemployment rate are not strictly comparable measures, since the two have different denominators. The denominator for the total unemployment rate is the entire labor force, which includes the unemployed, while the denominator for the insured unemployment rate is covered employment, which excludes the unemployed and workers in uncovered employment.

Table 2.4
Average Weekly Insured Unemployment as a Percent of
Covered Employment, 1970-1986

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
United States	3.4	4.1	3.0	2.5	3.4	6.1	4.4	3.7	2.8	2.8	3.9	3.5	4.7	3.9	2.7	2.8	2.8
New England																	
Connecticut	4.5	6.2	4.1	3.0	4.0	7.0	5.7	4.3	2.8	2.3	2.7	2.6	3.4	2.8	1.7	1.7	1.6
Maine	4.7	6.8	4.6	3.9	5.0	8.2	6.0	5.7	3.9	3.7	4.4	4.2	4.7	4.4	3.5	3.4	2.7
Massachusetts	4.4	5.7	4.5	4.3	5.3	8.1	5.5	4.3	3.2	3.0	3.2	3.4	3.9	3.2	2.2	2.3	2.2
New Hampshire	2.4	3.6	2.1	1.4	2.8	6.7	3.3	2.1	1.4	1.2	2.1	2.1	2.8	2.1	1.3	1.0	0.8
Rhode Island	5.2	6.0	4.5	4.3	5.4	9.7	6.0	5.6	5.6	4.8	5.3	5.0	6.1	4.6	3.1	3.5	3.1
Vermont	3.7	5.6	4.4	3.8	5.3	8.2	6.1	5.0	3.3	3.4	4.3	3.8	5.1	4.2	3.1	2.9	2.4
Middle Atlantic																	
Delaware	2.6	2.7	2.1	1.9	3.2	5.5	3.9	3.6	2.8	2.5	3.3	3.3	3.5	2.6	1.9	1.6	1.9
New Jersey	4.1	5.5	4.7	4.3	5.5	8.1	6.3	5.4	4.2	4.3	4.7	4.3	4.7	3.8	3.0	2.9	2.6
New York	3.8	4.6	4.2	3.5	4.4	7.0	5.6	4.9	3.9	3.6	3.9	3.3	3.8	3.5	2.9	2.7	2.5
Pennsylvania	3.1	4.2	3.7	3.1	4.1	7.6	6.0	5.6	4.2	4.1	5.3	4.5	6.8	6.1	4.1	3.9	3.6
East North Central																	
Illinois	2.4	3.1	2.4	1.8	2.3	5.8	5.2	4.3	3.2	3.0	4.7	4.5	5.7	4.9	3.0	3.2	3.1
Indiana	2.6	3.0	1.8	1.2	2.3	5.4	2.4	2.0	1.6	2.1	4.4	3.2	5.0	3.7	2.5	2.3	2.1
Michigan	5.0	5.3	3.9	2.8	5.9	8.8	5.4	4.4	3.8	4.7	8.8	6.1	7.6	4.7	3.2	3.1	3.1
Ohio	2.4	3.2	2.0	1.3	2.1	5.1	3.0	2.6	2.1	2.8	5.1	4.2	6.1	4.3	2.9	2.9	2.8
Wisconsin	3.5	3.9	3.0	2.1	2.7	5.7	3.9	3.2	2.6	2.9	5.3	4.7	5.9	4.8	3.2	3.4	3.0
West North Central																	
Iowa	2.2	2.6	1.7	1.4	1.5	3.7	2.9	2.4	2.2	2.0	3.3	2.9	4.6	3.7	2.7	3.1	2.9
Kansas	3.6	3.7	1.9	1.5	2.0	3.4	2.6	2.4	1.6	1.6	2.6	2.3	4.1	3.1	2.1	2.4	2.6
Minnesota	2.7	3.4	2.9	2.5	2.7	4.4	3.5	2.8	2.0	1.9	3.0	2.9	4.2	3.1	2.2	2.6	2.5
Missouri	3.4	3.8	2.8	2.4	3.0	6.0	3.9	3.5	2.7	2.8	4.3	3.8	4.4	3.6	2.4	2.5	2.5
Nebraska	1.6	2.1	1.4	1.4	1.8	3.8	2.4	2.0	1.4	1.2	1.9	2.0	2.8	2.7	1.9	2.3	2.1
North Dakota	3.0	3.8	3.1	2.7	2.8	2.9	3.3	3.8	2.8	2.6	3.3	2.9	3.6	3.7	3.0	3.2	3.4
South Dakota	1.8	2.2	1.7	1.5	1.6	2.9	2.4	2.2	1.8	1.6	2.0	2.0	2.3	1.7	1.1	1.5	1.4
South																	
Alabama	3.1	3.4	2.4	1.9	2.9	6.4	4.3	3.8	2.9	3.3	4.5	4.0	5.5	4.4	3.3	3.2	3.1
Arkansas	3.7	3.7	2.7	2.3	3.3	7.9	4.7	3.9	3.2	3.5	4.9	4.4	5.7	4.5	3.4	3.6	3.6
Florida	1.9	2.4	1.4	1.2	2.2	4.5	3.8	2.8	1.9	1.7	1.8	1.7	2.5	2.0	1.3	1.3	1.3
Georgia	1.7	1.9	1.3	1.0	2.1	6.1	3.3	2.7	1.9	1.9	2.5	2.5	3.4	2.4	1.6	1.7	1.7
Louisiana	3.9	3.8	2.8	2.8	2.9	4.1	3.5	3.6	2.3	2.2	2.8	2.6	4.5	5.4	3.8	4.4	5.6
Mississippi	2.5	2.4	1.4	1.3	2.0	5.6	3.3	2.9	2.3	2.5	4.1	3.9	6.0	5.0	3.5	3.6	3.9
N. Carolina	2.3	2.4	1.4	1.0	2.2	7.1	3.5	2.8	1.7	1.7	2.9	3.0	4.7	3.0	2.0	2.2	1.9
S. Carolina	2.6	2.8	1.7	1.2	2.5	7.8	3.7	2.8	1.9	2.1	3.4	3.7	5.7	3.6	2.4	2.8	2.2
Texas	1.4	1.7	1.2	0.9	1.1	2.2	1.6	1.4	1.2	1.1	1.4	1.1	2.0	2.4	1.5	1.5	2.6
Virginia	1.0	1.3	0.8	0.7	1.1	3.4	2.0	1.9	1.5	1.4	1.9	1.9	2.6	1.7	1.1	1.1	1.0

Table 2.4 (continued)
Average Weekly Insured Unemployment as a Percent of
Covered Employment, 1970-1986

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Border South																	
Kentucky	3.1	3.5	2.4	2.1	2.8	6.2	4.0	3.4	3.3	3.3	5.5	4.6	6.0	4.9	3.1	3.1	3.1
Maryland	2.3	3.4	2.7	2.1	2.8	5.5	3.8	3.4	2.2	2.2	3.1	3.2	4.3	3.4	2.2	2.1	2.0
Oklahoma	3.0	3.6	2.4	2.1	2.5	4.0	3.2	2.3	1.3	1.4	1.6	1.3	2.9	3.1	2.0	2.4	3.4
Tennessee	3.4	3.3	2.1	1.7	2.7	6.8	4.1	3.3	2.6	3.0	4.3	3.8	5.1	3.8	2.4	2.6	2.4
Wash., D.C.	1.8	1.9	1.9	1.9	2.3	3.8	3.4	3.3	2.7	2.5	2.8	3.1	3.9	3.2	2.4	2.0	2.1
West Virginia	3.3	3.9	3.5	2.9	3.4	5.4	4.2	4.2	3.9	4.1	5.7	5.9	7.3	8.0	4.8	4.6	4.3
Mountain																	
Arizona	2.3	2.7	1.8	1.7	3.1	6.5	4.3	2.9	1.6	1.4	2.4	2.4	4.1	3.0	1.7	1.7	1.9
Colorado	1.3	1.4	1.1	1.0	1.6	3.3	2.7	2.5	1.6	1.4	1.9	2.0	2.9	3.1	2.2	2.3	2.5
Idaho	3.9	4.3	3.6	3.2	3.8	5.3	4.4	3.9	3.0	3.5	5.2	5.1	7.3	5.5	4.0	4.4	4.8
Montana	3.9	4.3	3.4	3.2	3.8	5.2	4.5	4.2	3.7	3.5	4.5	4.0	5.3	4.7	4.0	4.0	4.0
Nevada	3.7	4.7	4.6	3.7	5.0	6.4	5.1	3.8	2.3	2.1	3.0	3.3	4.8	4.0	2.8	2.7	2.6
New Mexico	4.0	4.1	3.1	3.0	3.7	5.5	4.2	3.4	2.2	2.0	2.7	2.7	3.8	3.9	2.8	2.8	3.5
Utah	3.2	3.7	2.9	2.5	2.6	4.5	3.6	3.0	2.1	2.1	3.0	3.1	4.6	4.0	2.5	2.3	2.4
Wyoming	1.6	1.9	1.5	1.3	1.2	2.1	1.8	1.5	1.4	0.8	1.4	1.7	3.7	5.0	2.4	2.4	4.1
Pacific																	
California	5.1	5.8	4.1	3.6	4.4	6.4	5.0	4.3	3.4	3.1	3.8	3.8	5.3	4.7	3.3	3.6	3.5
Oregon	5.5	5.2	4.0	3.7	4.6	7.2	5.4	4.6	3.4	3.4	5.4	5.9	7.4	5.5	4.2	4.5	4.2
Washington	9.0	9.0	6.5	5.7	6.4	8.4	7.0	5.7	3.4	2.9	4.6	4.9	6.8	5.6	4.3	4.3	3.9
External States																	
Alaska	8.3	9.2	8.5	8.0	6.4	5.9	7.6	11.0	9.2	7.8	7.5	6.3	6.2	5.9	5.9	6.9	8.4
Hawaii	2.7	3.9	4.4	3.5	4.0	4.5	4.9	3.8	2.9	2.6	2.7	3.0	3.6	3.4	2.8	2.5	2.1
Outlying Areas																	
Puerto Rico	10.7	15.0	10.4	10.4	11.5	15.6	15.1	13.9	8.6	8.6	6.9	7.8	9.1	7.0	5.7	6.8	5.7
Virgin Islands									3.8	2.6	3.3	3.6	4.7	4.7	3.8	2.8	2.1

State insured unemployment rates have two functions. First, they are indicators of the relative health of a State's economy. However, as mentioned, they are imperfect indicators since they are affected by State program characteristics. Second, State insured unemployment rates determine whether a State will be "triggered on" to the EB program. Chapter 6 discusses issues concerning the EB program, including the use of the insured unemployment rate as a trigger for the program.

B. Benefit Payments

1. Total Benefits Paid, 1938-1987

Chart 2.19 shows UC benefit payments from all program components for 1938-1987. Benefit payments are shown in constant 1987 dollars to provide information on benefits in terms of constant purchasing power. [12] Not surprisingly, the chart shows a great deal of variation in total benefit payments. Each peak occurs near a recession, with periods of lower spending occurring during periods of economic growth. In addition, there is a secular trend toward higher total constant-dollar benefit payments. This trend is likely due to: (1) increases in the number of people receiving benefits, stemming primarily from labor force growth; and (2) particularly before 1971, real wage growth, which increases benefit levels in real terms.

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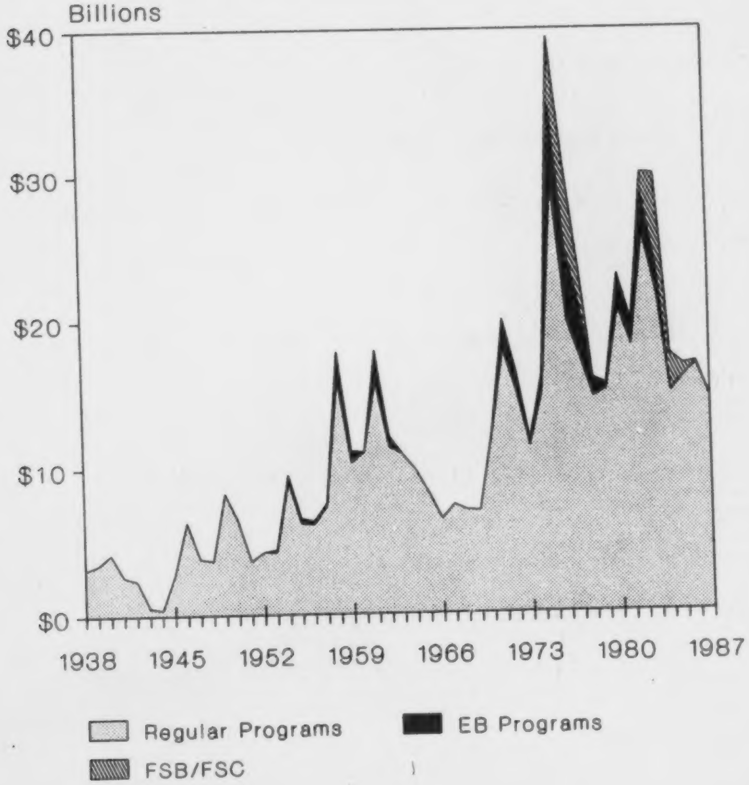
[12] The index used to compute constant 1987 dollars is the Consumer Price Index for all Urban Consumers (CPI-U).

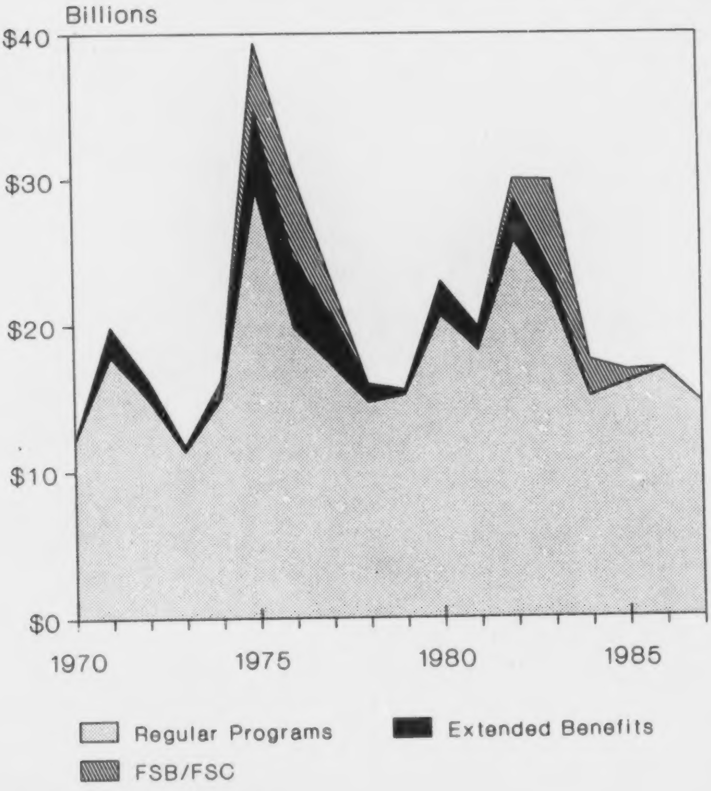
Chart 2.19: Total Unemployment Compensation Benefits Paid Under All Programs In Constant 1987 Dollars 1938-1987



Source: Chart prepared by CRS based on data from DoL.

Chart 2.20 provides constant dollar benefit amounts from 1970-1987. The shorter time period provides a good perspective on program activity during two most recent major recessions, 1973-75 and 1981-82. It also provides a better picture of the relative contribution of extended benefits and special supplemental programs for the long-term unemployed that were in effect during this period.

Chart 2.20: Total Unemployment Compensation Benefits Paid Under All Programs In Constant 1987 Dollars, 1970-1987



Source: Chart prepared by CRS based on data from DoL.

The chart shows that total constant dollar benefits were higher during the mid-1970s than during the recession in the early 1980s. This relationship holds despite the fact that the total civilian unemployment rate was higher in the 1981-1982 recession than it was during the 1973-1975 recession (8.5 percent in 1975). Much of the discrepancy in the spending amounts during the two recession periods results from lower extended and supplemental benefits in the 1980s.

Table 2.5 summarizes the difference in total UC benefits for the peak years of the recessions, 1975 and 1982.

TABLE 2.5. Unemployment Compensation Total Benefits by Program, In Constant 1987 Dollars a/ 1975 and 1982 (millions)

Program	1975	1982	Percent change
Regular State programs	$29,101	$25,622	-12%
Federal-State extended benefits	5,512	2,842	-48
FSB/FSC	4,743	1,463	-69
Total	$39,356	$29,927	-24

a/ Constant dollars were computed using the Consumer Price Index for all Urban Consumers.

Source: Table prepared by the Congressional Research Service (CRS) based on data from the U.S. Department of Labor (DoL).

The table shows that total UC benefits were almost $10 billion, or 24 percent, lower in 1982 than in 1975. However, regular State benefits were only 13 percent lower; the largest differences occurred in the EB and supplemental benefits programs. Of the $10 billion drop in total spending, about 40 percent is accounted for by the regular State programs, with the remaining 60 percent accounted for by the EB and supplemental benefits program.

The constant dollar analysis presented in this section controls for the effects of general price inflation on total program benefits. The trend in total UC benefits is also explained by changes in: (1) the number of people receiving benefits, (2) their duration of benefits receipt, and (3) average benefit amounts for unemployed workers. The following sections examine these trends.

2. Beneficiaries

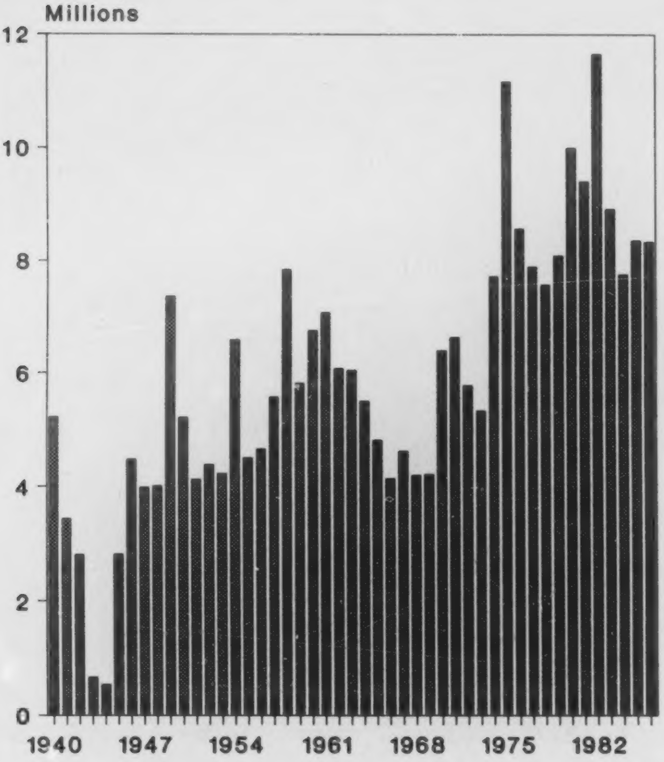
a. Number of beneficiaries. The number of people who receive UC varies in much the same way as total benefit payments, rising during periods of recession and falling during periods of growth. The historical information on UC beneficiaries represents the number of "first payments" made during the year--that is, the "count of the first unemployment check issued to each claimant during his benefit year." 13/ For the most part, only individuals beginning their first spell of unemployment during a calender year are counted in this measure; thus, its use avoids counting a person twice as a UC claimant. 14/

Chart 2.21 shows the number of first payments under regular State programs for 1940 to 1986. The following chart, 2.22, shows the number of first payments under the EB program for 1971 to 1986.

13/ U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Financial Data ET Handbook 394. p. ix.

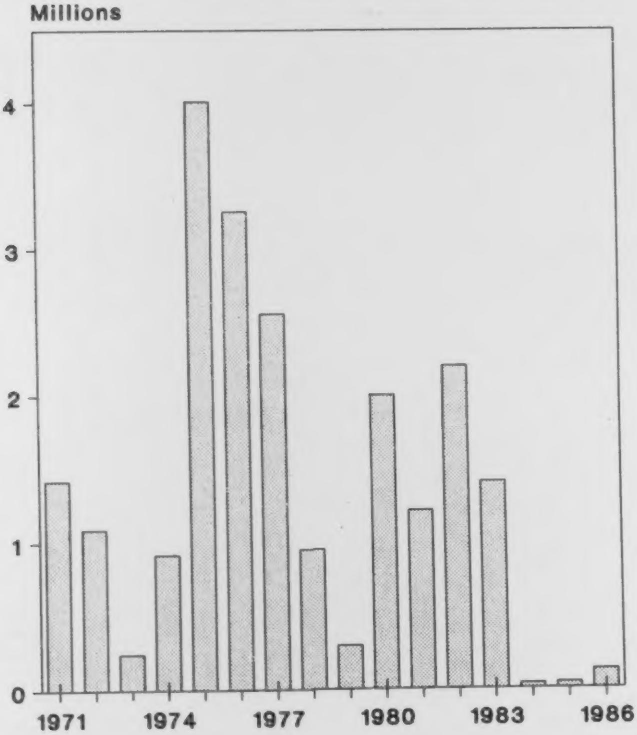
14/ However, in some States, it is possible for "relatively few" claimants to receive two "first payments" during a calender year. U.S. Department of Labor. Unemployment Insurance Financial Data. p. ix.

Chart 2.21: Number of First Benefit Awards Under Regular State Unemployment Compensation Programs, 1940-1986



Source: Chart prepared by CRS based on data from DoL.

Chart 2.22: Number of First Payments Under the Federal-State Extended Benefits Program, 1971-1986



Source: Chart prepared by CRS based on data from DoL.

The variation in the number of regular State program beneficiaries appears to reflect changing economic circumstances and growth in the number of unemployed due to a growing labor force. Under regular program, there were more first payments in 1982 than in 1975; however, the number of unemployed was also greater in 1982 than in 1975.

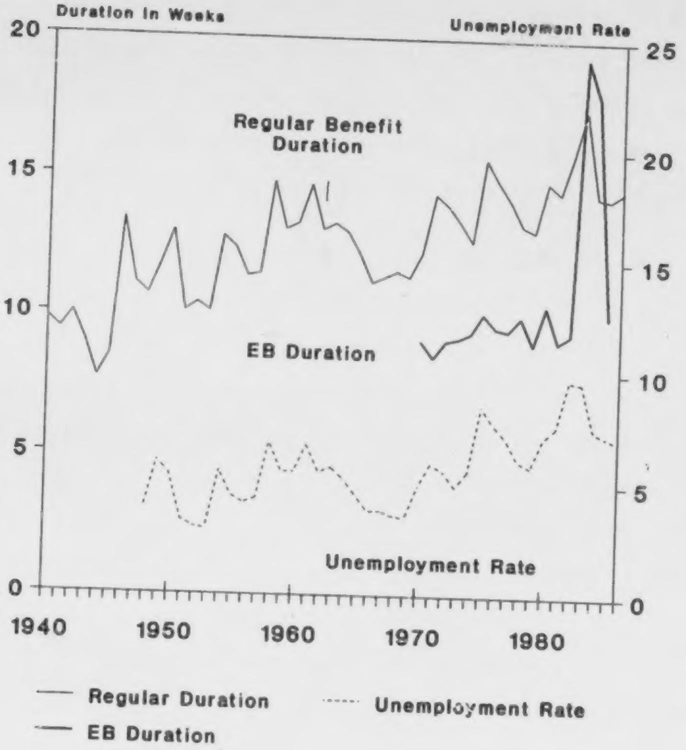
The EB chart shows the effects of both policy changes and changing economic circumstances. First payments rise and fall with the economy, but the rise during the 1980s fell far short of that of the mid-1970s, with first payments in 1982 (2.2 million) about half those of 1975 (4.0 million). Much of this difference is due to more stringent rules concerning when a State may "trigger on" to EB. (See chapter 6.)

b. Duration of benefit receipt. Chart 2.23 shows the national average duration of unemployment benefit receipt for 1940 to 1987. It measures the average number of weeks that a UC recipient receives benefits during a year, counting all spells of unemployment the recipient may have experienced. 15/ It is important to note that chart 2.23 does not include information on duration of benefit receipt under the Federal Supplemental Benefits (FSB) program (in operation from 1975 to 1982) or the Federal Supplemental Compensation (FSC) program (in operation from 1982 to 1985).

The solid line shows average duration under regular State programs and the heavy line the average duration under the EB program. The bottom line provides the trend in civilian unemployment, which is read from the right-hand axis. Average duration varies with the unemployment rate, though the peaks in average duration occur a year or two after the peaks in the unemployment rate.

15/ The definition of "average actual duration" is as follows: "the number of weeks of compensated unemployment divided by the number of first payments." U.S. Department of Labor. Unemployment Insurance Financial Data. p. ix.

Chart 2.23: Actual Duration of Benefit Receipt From Unemployment Compensation Programs (Shown with the Civilian Unemployment Rate), 1940-1986

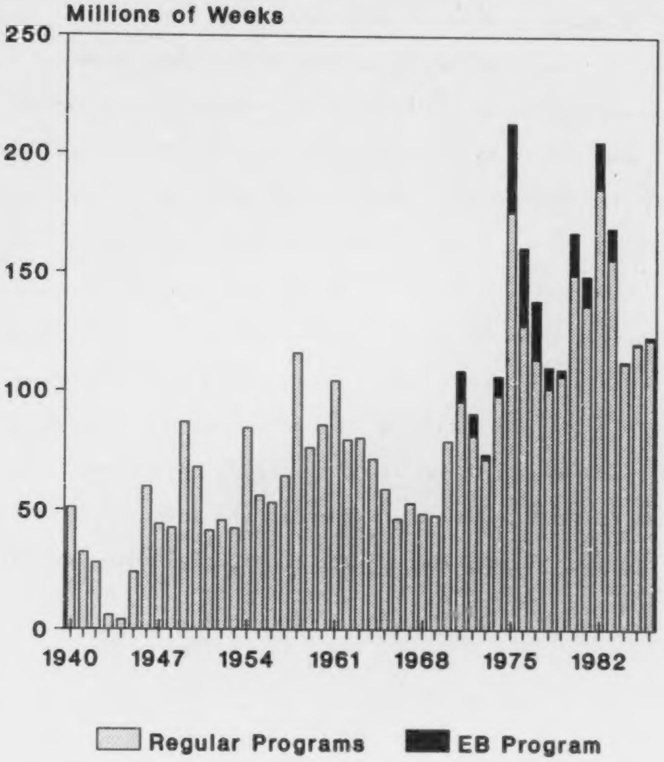


Source: Chart prepared by CRS. Data for civilian unemployment rate are from the Economic Report of the President, February 1988. Data on duration of UC benefit receipt are from the DoL.

c. Weeks compensated. The "first payments" measure (chart 2.22) shows the number of persons who receive benefits at any time during the year; the average duration of receipt measure shows how long, on average, beneficiaries receive benefits during the year. A measure that combines both these pieces of information is the number of weeks compensated, or the total number of weekly benefit payments made during a year.

Chart 2.24 shows total weeks compensated under regular State programs from 1940 to 1986, and under the EB program from 1971 to 1986. However, it included weeks of compensation under the FSB program (which increased maximum potential duration of benefits to 65 weeks in 1975) and the FSC program. Comparing UC weeks compensated during the mid-1970s and the early 1980s, the effect of fewer EB beneficiaries in the 1980s is seen. For example, regular State programs compensated more weeks of unemployment in 1982 than in 1975. However, the number of weeks compensated by the EB program was far lower in 1982 than in 1975, resulting in the total number of UC weeks compensated being lower in 1982 than in 1975. The information on duration of benefit receipt presented in chart 2.23 indicates that EB durations were longer in 1982 than in 1975. Thus, the decline in weeks compensated under the EB program results from fewer beneficiaries (see "first payments" data, chart 2.21) rather than from shorter durations of benefit receipt.

Chart 2.24: Number of Weeks Compensated by Unemployment Compensation Programs, 1940-1986



Source: Chart prepared by CRS based on data from DoL.

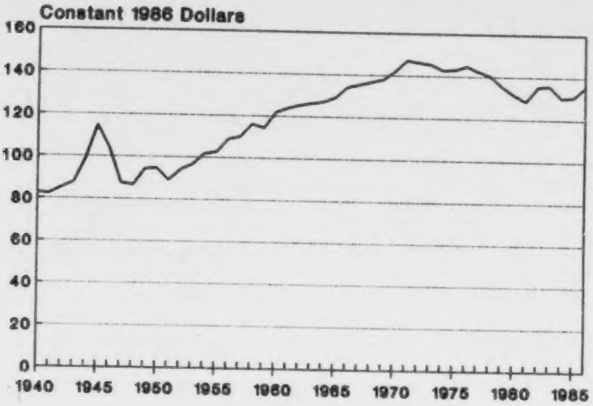
3. Benefit Levels

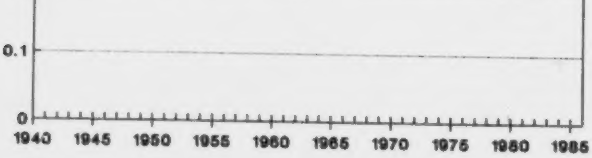
The UC benefit amounts are set by each State. In all States, benefits replace a fixed percentage (such as 50 percent) of a worker's average weekly wage (AWW) up to a maximum benefit amount. That is, the worker gets the lower of the fixed percentage of AWW or the maximum benefit amount. Thus, the benefit structure is progressive, with UC replacing a higher proportion of wages for lower-paid workers than for higher paid workers. (See Chapter 5: Benefit Adequacy: Are Wage Replacement Standards Being Met?)

Chart 2.25 shows the national average weekly UC benefit in current and constant (1986) dollars and the ratio of the average weekly UC benefit to the AWW in covered employment for 1940-1986. 16/ The trend in constant dollar benefits reveals two distinct eras: an era of growth from the early 1950s to 1971, followed by erratic declines from 1972 to 1982. As shown in the bottom panel of the chart, however, the ratio of average weekly benefits to the AWW was remarkably flat after 1951. This suggests that much of the change in constant-dollar benefits shown in the top panel was due to changes in real wages, that is, that the rise in constant-dollar benefits from the early 1950s to 1971 reflected higher real wages and that the slight decline in constant dollar benefits from 1972 to 1982 was in part caused by sluggish or negative real wage growth.

16/ This ratio should not be confused with the percent of wages UC benefits replace for an average worker. Such wage replacement measures are shown in chapter 5.

Chart 2.25: Average Weekly Unemployment Compensation Benefits, In Constant 1986 Dollars and As A Ratio to the Average Weekly Wage in UC Covered Employment, 1940-1986





Source: Chart prepared by CRS based on data from DoL.

Since States determine UC benefit levels, it is likely that trends in the national average benefit mask variation in trends for State benefit levels. Table 2.6 shows average weekly benefit amounts, by State for selected years, in current dollars; table 2.7 provides this information in constant 1986 dollars. The tables show wide variation in the trends in average weekly benefits. From 1970 to 1986, in terms of constant dollars, this variation ranged from a decline in real benefit values of 22 percent in California to a rise in real benefit values of 52 percent in West Virginia. Each State's trend could be compared with the national average decline in real average weekly benefits of 4.5 percent.

TABLE 2.6. Unemployment Compensation Average Weekly Benefit Amount by State, For Selected Years

	1970	1975	1980	1982	1986	Percent change 1970-1986
U.S. Average	$50	$70	$99	$119	$136	169.8%
Alabama	39	61	77	80	100	155.0
Alaska	49	74	85	130	159	220.4
Arizona	45	69	83	100	113	149.7
Arkansas	38	59	89	96	119	211.9
California	54	68	86	100	118	119.0
Colorado	57	81	111	141	157	174.6
Connecticut	60	76	104	122	155	158.0
Delaware	50	73	108	98	145	189.6
District of Columbia	54	93	122	141	164	201.9
Florida	36	61	74	95	124	247.4
Georgia	42	61	79	96	110	159.6
Hawaii	56	78	106	130	146	160.0
Idaho	48	65	97	116	132	177.4
Illinois	52	78	115	146	141	172.1
Indiana	40	64	85	94	101	152.4
Iowa	52	74	117	137	140	169.0
Kansas	51	65	106	128	151	197.7
Kentucky	44	64	101	116	107	142.4
Louisiana	44	62	109	145	150	242.4
Maine	43	57	86	101	123	184.1
Maryland	50	73	92	116	138	174.1
Massachusetts	51	73	97	115	156	204.3
Michigan	56	81	102	154	155	174.2
Minnesota	50	69	118	137	169	240.8
Mississippi	35	48	69	80	94	171.9
Missouri	49	66	88	94	108	122.7
Montana	38	58	98	122	129	243.3
Nebraska	42	65	94	97	111	161.4
Nevada	47	71	100	116	134	183.3
New Hampshire	46	61	85	95	117	152.4
New Jersey	58	76	101	120	157	169.7
New Mexico	43	55	83	105	122	181.8
New York	54	73	94	99	136	151.0
North Carolina	38	59	87	104	119	216.7
North Dakota	45	56	106	128	149	235.4

TABLE 2.6. Unemployment Compensation Average Weekly Benefit Amount by State, For Selected Years--Continued

	1970	1975	1980	1982	1986	Percent change 1970-1986
Ohio	$49	$79	$125	$144	$149	203.4%
Oklahoma	35	57	100	137	146	314.6
Oregon	45	65	99	117	140	212.4
Pennsylvania	50	81	116	146	155	211.8
Puerto Rico	28	40	54	66	72	155.8
Rhode Island	51	68	89	108	131	160.0
South Carolina	40	62	82	94	101	154.1
South Dakota	38	59	97	110	108	186.0
Tennessee	40	57	78	87	92	133.3
Texas	40	54	86	127	162	301.5
Utah	42	69	106	130	156	269.4
Vermont	49	67	90	107	122	149.0
Virginia	41	67	96	108	128	211.5
Virgin Islands	NA	NA	69	87	110	NA
Washington	53	71	110	131	142	168.1
West Virginia	33	59	106	130	144	330.9
Wisconsin	55	80	117	137	141	156.0
Wyoming	45	64	108	137	166	267.9

Source: Table prepared by CRS based on data from DoL.

TABLE 2.7. Unemployment Compensation Average Weekly Benefit Amounts by State In Constant 1986 Dollars, for Selected Years

	1970	1975	1980	1982	1986	Percent change 1970-1986
U.S. Average	$142	$143	$132	$136	$136	-4.5%
Alabama	111	124	102	91	100	-9.7
Alaska	140	152	113	148	159	13.5
Arizona	128	141	111	114	113	-11.6
Arkansas	108	121	118	109	119	10.5
California	153	138	115	113	118	-22.4
Colorado	162	166	148	160	157	-2.7
Connecticut	170	155	139	139	155	-8.6
Delaware	142	150	144	111	145	2.5
District of Columbia	153	189	163	160	164	6.9
Florida	101	125	99	108	124	23.0
Georgia	120	124	105	109	110	-8.0
Hawaii	159	158	141	147	146	-7.9
Idaho	134	133	130	132	132	-1.7
Illinois	146	159	152	166	141	-3.6
Indiana	113	130	113	107	101	-10.6
Iowa	147	151	156	156	140	-4.7
Kansas	143	132	141	145	151	5.4
Kentucky	124	131	135	132	107	-14.2
Louisiana	124	126	144	164	150	21.3
Maine	123	115	114	115	123	0.6
Maryland	142	148	122	132	138	-2.9
Massachusetts	145	149	130	131	156	7.8
Michigan	160	166	136	175	155	-2.9
Minnesota	140	141	157	156	169	20.7
Mississippi	98	99	92	91	94	-3.7
Missouri	137	135	118	106	108	-21.1
Montana	106	118	131	139	129	21.6
Nebraska	120	133	125	110	111	-7.4
Nevada	134	144	133	132	134	0.3
New Hampshire	131	123	113	108	117	-10.6
New Jersey	165	154	134	136	157	-4.5
New Mexico	122	112	110	120	122	-0.2
New York	152	148	125	112	136	-11.1
North Carolina	106	121	116	118	119	12.2
North Dakota	126	115	141	145	149	18.8

TABLE 2.7. Unemployment Compensation Average Weekly Benefit Amounts by State In Constant 1986 Dollars, for Selected Years—Continued

	1970	1975	1980	1982	1986	Percent change 1970-1986
Ohio	$139	$161	$166	$163	$149	7.4%
Oklahoma	99	116	133	156	146	46.8
Oregon	126	133	132	133	140	10.6
Pennsylvania	140	165	154	166	155	10.4
Puerto Rico	79	81	71	75	72	-9.4
Rhode Island	143	138	118	122	131	-7.9
South Carolina	112	126	109	107	101	-10.0
South Dakota	107	120	129	124	108	1.3
Tennessee	112	116	104	99	92	-17.4
Texas	114	110	115	144	162	42.2
Utah	120	141	141	147	156	30.8
Vermont	139	136	120	122	122	-11.8
Virginia	116	136	127	123	128	10.3
Virgin Islands	NA	NA	92	99	110	NA
Washington	150	144	147	148	142	-5.0
West Virginia	95	120	141	147	144	52.6
Wisconsin	156	163	156	155	141	-9.3
Wyoming	127	130	143	155	166	30.3

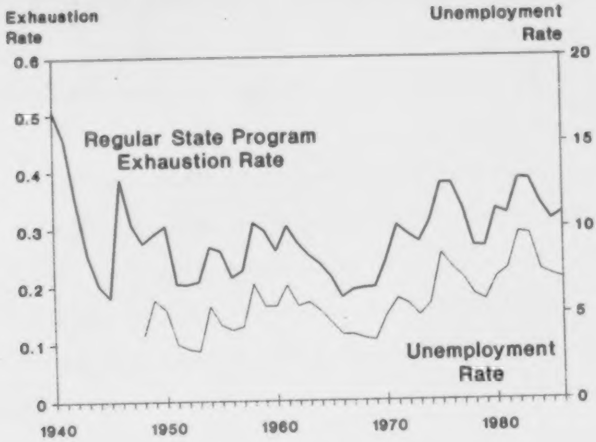
Source: Table prepared by CRS based on data from DoL.

C. Benefit Exhaustions

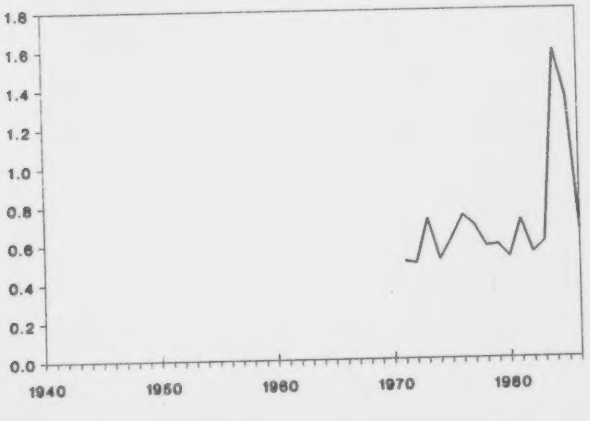
The UC provides partial, temporary protection from the financial risks of unemployment. In 1988, regular State programs provide up to 26 weeks of protection. The EB program, if it were to "trigger on" during the year in a State, would provide up to 13 additional weeks of benefits. In the past, potential benefit durations were different. In 1975, for example, a worker could receive UC for a period of 65 weeks under regular State, Federal-State Extended Benefits, and a temporary Federal Supplemental Compensation Program (FSC).

Since UC benefits provide temporary protection, some recipients exhaust benefits before finding work or leaving the labor force. Chart 2.26 shows the national benefit exhaustion ratio under regular State programs for 1940 to 1986 and under the EB program for 1971 to 1986. The exhaustion ratio represents the number of exhaustees in a year divided by the number of first payments made in that year. Since an exhaustee may have received a first payment in a previous year, this measure is not a strict percentage of UC claimants exhausting benefits, as is evident in the EB ratios for 1984 and 1985, which exceed 1.0. In these years, more claimants exhausted benefits than came on the EB program's benefit rolls. The trends in exhaustion ratios are shown together with the civilian unemployment rate.

Chart 2.26: Unemployment Compensation Benefit Exhaustion Rates, 1940-1986



Extended Benefits Exhaustion Rate



Source: Chart prepared by CRS based on data from DoL.

Chart 2.26 illustrates that exhaustion ratios vary with the unemployment rate, exhaustions peaking a year or two after the unemployment rate peaks. Given the data on unemployment rates, average duration of unemployment (see section I), and average duration of benefit receipt, the trends in exhaustion ratios are not surprising. These elements all vary together. Moreover, the chart shows that the EB exhaustion ratio is usually higher than that for the regular program.

The national exhaustion ratio data mask vast differences in ratios among the 53 State programs. Table 2.8 shows exhaustion ratios by State for selected years 1970 to 1986. In 1986, this ratio varied from a low of .02 in New Hampshire to a high of .62 in Louisiana. As may be expected, exhaustion ratios were relatively high in the oil-producing States such as Louisiana, Alaska, Texas, and Oklahoma.

The table shows that State exhaustion ratios can change fairly dramatically over time, especially with States whose economic fortunes depend in great part on the health of a particular industry. For example, Louisiana had the highest exhaustion ratio in 1986; in 1976, however, Louisiana's exhaustion ratio (.37) was the same as the national exhaustion ratio. Alaska, another oil-producing State, had the second highest exhaustion ratio in 1986 (.57 percent) but the third lowest exhaustion ratio in 1976 (.20).

TABLE 2.8. UC Benefit Exhaustion Ratio for Regular State Programs by State, for Selected Years 1970-1986

State	1970	1975	1976	1982	1983	1984	1985	1986
U.S. Total	0.24%	0.38%	0.38%	0.38%	0.38%	0.34%	0.31%	0.32%
Alabama	0.32	0.32	0.32	0.30	0.34	0.32	0.24	0.24
Alaska	0.23	0.22	0.21	0.42	0.47	0.47	0.51	0.57
Arizona	0.26	0.50	0.39	0.41	0.41	0.29	0.28	0.28
Arkansas	0.28	0.35	0.34	0.31	0.32	0.27	0.24	0.23
California	0.31	0.37	0.35	0.46	0.41	0.37	0.36	0.35
Colorado	0.19	0.59	0.53	0.50	0.47	0.37	0.37	0.35
Connecticut	0.19	0.34	0.32	0.21	0.21	0.16	0.16	0.15
Delaware	0.14	0.38	0.42	0.20	0.20	0.17	0.15	0.24
District of Columbia	0.28	0.46	0.48	0.48	0.52	0.51	0.50	0.50
Florida	0.41	0.59	0.50	0.44	0.37	0.36	0.36	0.36
Georgia	0.30	0.42	0.43	0.31	0.33	0.30	0.24	0.26
Hawaii	0.27	0.38	0.44	0.29	0.31	0.29	0.25	0.24
Idaho	0.29	0.32	0.28	0.50	0.48	0.45	0.40	0.38
Illinois	0.23	0.40	0.43	0.49	0.51	0.39	0.39	0.38
Indiana	0.28	0.40	0.36	0.42	0.40	0.40	0.34	0.30
Iowa	0.32	0.45	0.36	0.39	0.40	0.33	0.33	0.29
Kansas	0.34	0.36	0.33	0.43	0.47	0.35	0.34	0.34
Kentucky	0.24	0.32	0.33	0.38	0.37	0.29	0.25	0.26
Louisiana	0.38	0.37	0.37	0.50	0.55	0.49	0.49	0.62
Maine	0.27	0.38	0.31	0.49	0.61	0.57	0.57	0.43
Maryland	0.17	0.36	0.19	0.34	0.34	0.26	0.24	0.23
Massachusetts	0.24	0.41	0.43	0.31	0.31	0.26	0.24	0.26
Michigan	0.24	0.39	0.39	0.40	0.37	0.31	0.31	0.31
Minnesota	0.35	0.51	0.42	0.47	0.45	0.37	0.36	0.36
Mississippi	0.21	0.30	0.29	0.32	0.37	0.30	0.29	0.31
Missouri	0.17	0.38	0.37	0.38	0.36	0.31	0.27	0.28
Montana	0.29	0.39	0.38	0.43	0.46	0.42	0.40	0.43
Nebraska	0.30	0.45	0.39	0.38	0.40	0.34	0.34	0.32
Nevada	0.28	0.43	0.49	0.40	0.38	0.31	0.28	0.27
New Hampshire	0.04	0.11	0.11	0.09	0.08	0.07	0.03	0.02

TABLE 2.8. UC Benefit Exhaustion Ratio for Regular State Programs by State, for Selected Years 1970-1986--Continued

State	1970	1975	1976	1982	1983	1984	1985	1986
New Jersey	0.25	0.43	0.50	0.46	0.44	0.47	0.39	0.37
New Mexico	0.26	0.37	0.33	0.40	0.45	0.37	0.36	0.39
New York	0.20	0.42	0.45	0.38	0.43	0.40	0.37	0.36
North Carolina	0.15	0.24	0.26	0.21	0.23	0.20	0.14	0.21
North Dakota	0.18	0.27	0.27	0.41	0.44	0.43	0.41	0.42
Ohio	0.15	0.32	0.31	0.43	0.39	0.33	0.30	0.28
Oklahoma	0.39	0.47	0.47	0.58	0.51	0.37	0.35	0.46
Oregon	0.22	0.29	0.27	0.39	0.35	0.28	0.28	0.24
Pennsylvania	0.13	0.29	0.29	0.30	0.36	0.29	0.26	0.25
Puerto Rico	0.48	0.67	0.78	0.32	0.44	0.96	0.54	0.50
Rhode Island	0.25	0.45	0.42	0.37	0.32	0.28	0.25	0.25
South Carolina	0.30	0.26	0.30	0.30	0.27	0.26	0.21	0.28
South Dakota	0.35	0.30	0.30	0.20	0.19	0.13	0.12	0.13
Tennessee	0.26	0.34	0.35	0.33	0.26	0.21	0.25	0.27
Texas	0.37	0.47	0.39	0.44	0.46	0.40	0.39	0.46
Utah	0.27	0.37	0.32	0.43	0.41	0.32	0.33	0.35
Vermont	0.16	0.37	0.31	0.24	0.21	0.18	0.16	0.15
Virginia	0.22	0.28	0.33	0.27	0.26	0.20	0.18	0.19
Virgin Islands	N/A	N/A	N/A	0.43	0.43	0.46	0.53	0.43
Washington	0.26	0.41	0.40	0.37	0.37	0.33	0.29	0.26
West Virginia	0.14	0.22	0.21	0.35	0.42	0.33	0.26	0.28
Wisconsin	0.18	0.29	0.40	0.40	0.27	0.32	0.29	0.30
Wyoming	0.17	0.22	0.24	0.48	0.41	0.33	0.30	0.40

NOTE: N/A denotes not applicable.

Source: Table prepared by CRS based on data from DoL.

Table 2.9 shows exhaustion rates under the Federal-State Extended Benefits program for selected years. In general EB trends follow those of the regular State programs. However, in the 1980s, few States "triggered on" to the EB program and thus reported no first payments or exhaustions. The table denotes these States with N/A.

TABLE 2.9. UC Benefit Exhaustion Ratios Under the Federal-State Extended Benefits Program, by State, for Selected Years 1971-1986

State	1971	1975	1976	1982	1983	1984	1985	1986
U.S. Total	0.50%	0.62%	0.74%	0.54%	0.60%	1.59%	1.34%	0.66%
Alabama	0.70	0.63	0.77	0.39	0.82	1.75	NA	NA
Alaska	0.70	0.47	0.47	0.54	0.41	0.28	0.31	0.41
Arizona	NA	0.51	0.74	0.25	0.77	NA	NA	NA
Arkansas	NA	0.60	0.76	0.24	0.63	1.50	NA	NA
California	0.53	0.61	0.64	0.56	0.41	0.26	0.05	0.20
Colorado	NA	0.32	0.44	NA	NA	NA	NA	NA
Connecticut	0.55	0.52	0.79	NA	NA	NA	NA	NA
Delaware	NA	0.47	0.65	0.20	NA	NA	NA	NA
District of Columbia	NA	0.75	0.86	0.75	NA	NA	NA	NA
Florida	NA	0.65	0.80	NA	NA	NA	NA	NA
Georgia	NA	0.73	0.82	3.00	NA	0.20	NA	NA
Hawaii	0.05	0.56	0.69	NA	NA	NA	NA	NA
Idaho	0.45	0.51	0.62	0.61	0.66	0.37	0.35	0.35
Illinois	NA	0.49	0.69	0.48	0.70	0.56	0.42	0.67
Indiana	NA	0.59	0.88	0.54	0.40	2.00	1.00	NA
Iowa	NA	0.61	0.66	0.43	0.43	0.35	NA	NA
Kansas	0.57	0.51	0.71	0.24	0.20	NA	0.50	NA
Kentucky	NA	0.65	0.78	0.27	0.65	0.87	NA	NA
Louisiana	NA	0.63	0.74	0.34	0.42	0.47	0.18	0.63
Maine	0.48	0.60	0.69	0.54	0.47	NA	NA	NA
Maryland	NA	0.77	0.74	0.34	1.96	1.00	NA	NA
Massachusetts	0.50	0.66	0.87	0.29	0.50	NA	NA	NA
Michigan	0.81	0.68	0.79	0.82	0.65	0.33	0.28	NA
Minnesota	0.41	0.85	0.67	0.35	0.32	0.25	NA	NA
Mississippi	NA	0.51	0.70	0.42	0.59	1.00	NA	NA
Missouri	NA	0.57	0.74	0.26	0.60	NA	NA	NA
Montana	NA	0.54	0.62	0.47	0.49	0.20	NA	NA
Nebraska	NA	0.69	0.78	NA	NA	NA	NA	NA
Nevada	0.47	0.70	0.80	0.38	0.35	3.00	NA	NA
New Hampshire	0.40	0.11	0.65	NA	NA	NA	NA	NA

TABLE 2.9. UC Benefit Exhaustion Ratios Under the Federal-State Extended Benefits Program, by State, for Selected Years 1971-1986--Continued

State	1971	1975	1976	1982	1983	1984	1985	1986
New Jersey	0.21	0.75	0.78	0.96	0.71	NA	NA	NA
New Mexico	NA	0.62	0.79	0.16	0.16	NA	NA	NA
New York	0.35	0.50	0.63	0.40	NA	NA	NA	NA
North Carolina	NA	0.54	0.72	0.40	0.32	0.33	NA	NA
North Dakota	NA	0.41	0.50	NA	0.33	1.00	NA	NA
Ohio	NA	0.60	0.89	0.62	0.81	NA	NA	NA
Oklahoma	NA	0.67	0.78	NA	NA	NA	NA	NA
Oregon	0.45	0.55	0.61	0.50	0.37	0.20	NA	NA
Pennsylvania	0.56	0.65	0.82	0.54	0.75	1.00	0.57	6.40
Puerto Rico	NA	0.70	0.82	4.01	6.76	6.46	3.96	1.03
Rhode Island	0.76	0.76	0.80	0.54	0.39	NA	NA	NA
South Carolina	NA	0.79	0.79	0.49	0.50	1.11	1.00	NA
South Dakota	NA	0.10	0.40	NA	0.15	NA	NA	NA
Tennessee	NA	0.52	0.77	0.41	4.00	NA	NA	NA
Texas	NA	0.61	0.72	NA	NA	NA	NA	NA
Utah	0.45	0.80	0.94	0.50	0.49	NA	NA	NA
Vermont	0.49	0.62	0.72	NA	NA	NA	NA	NA
Virginia	NA	0.76	0.97	NA	NA	NA	NA	NA
Virgin Island	NA	NA	NA	0.16	0.11	NA	NA	NA
Washington	0.72	0.73	0.75	0.64	0.70	0.91	0.21	1.00
West Virginia	NA	0.47	0.62	0.47	0.72	0.96	0.45	1.00
Wisconsin	NA	0.62	0.83	0.43	0.53	0.14	0.67	NA
Wyoming	NA	0.11	0.69	NA	0.63	1.36	NA	NA

NOTE: NA denotes not applicable, no first payments under the EB program in that year.

Source: Table prepared by CRS based on data from DoL.

D. Program Financing

The Federal Unemployment Trust Fund is an accounting mechanism to keep track of receipts and provide the spending authority for the program. When UC receipts exceed outlays, the trust funds are credited with an amount equal to the surplus; these credits, in the form of interest-bearing Treasury securities, represent the "assets" of the trust fund. When UC outlays exceed receipts, these credits are cancelled, and the assets of the trust fund are reduced. The spending authority for the program represents all new tax receipts in a given year plus the "assets" of the trust fund.

The crediting and debiting of the UC trust funds is what is meant by the "financing" of benefits. The "financing" of benefits refers to the accumulation of spending authority for the UC; it raises different issues from those concerning how the Federal Government obtains the resources for benefit payments.

This section describes the trend in the UC trust funds for the post-World-War II period. Chapter 7 discusses the current financing issue.

1. Trust Fund Reserves

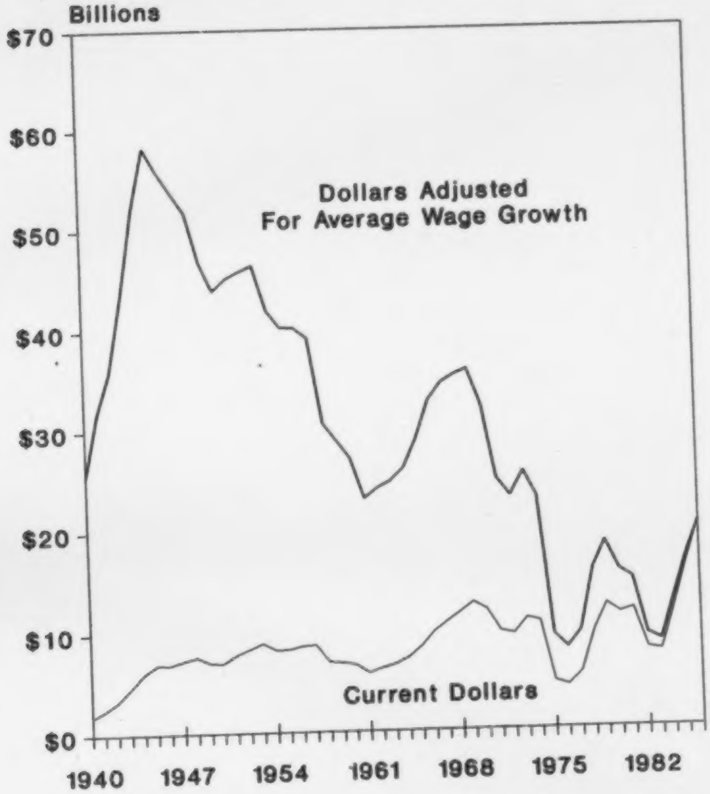
The most common measures of the financial health of the UC program are measures of trust fund reserves. The reserves measure the accumulated spending authority of the program at a given point in time. Reserve measures provided in this section are as of the end of the calendar year.

Chart 2.27 shows gross trust fund reserves, which, together with new taxes, measure the amount of spending authority available to the program at a point in time. Chart 2.28 shows net trust fund reserves, total reserves minus loans outstanding from the U.S. Treasury's General Fund to the UC Trust Fund.

Reserves are shown both in current dollars and in dollars adjusted for wage growth. The latter measure is similar to constant-dollar analysis. Since UC receipts are based on a payroll tax on wages, and UC benefits provide for wage replacement, UC net reserves were converted into dollars adjusted for growth in the average wage in UC covered employment. 17/

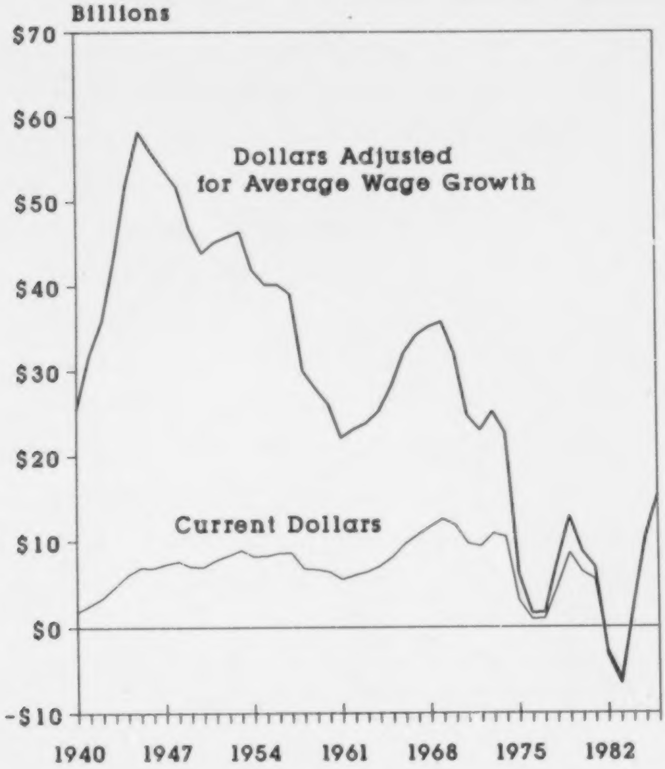
17/ To make this adjustment, an index was constructed using the national average wage in covered employment reported in the DoL's Unemployment Insurance Financial Data, ET Handbook. The index is based on 1986; that is, the 1986 value for this index is 1.00. Index values for years prior to 1986 represent average wages in each year divided by average wages in 1986.

Chart 2.27: Unemployment Compensation Reserves In Current Dollars and Dollars Adjusted for Average Wage Growth, 1940-1986



Source: Chart prepared by CRS based on data from DoL.

Chart 2.28: Unemployment Compensation Net Reserves In Current Dollars and Dollars Adjusted for Average Wage Growth, 1940-1986

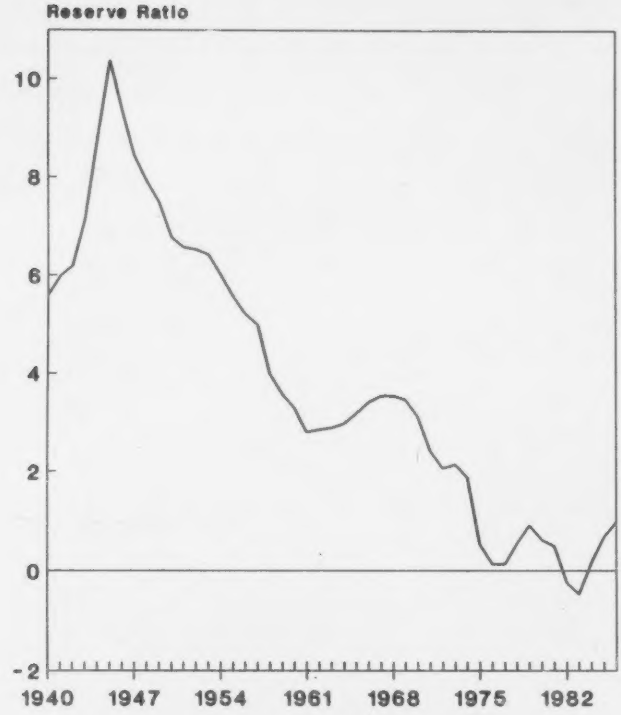


Source: Chart prepared by CRS based on data from DoL.

These trends shows the effects of both long-term trends in program financing and variations in economic activity. UC net, current-dollar reserves varied only slightly in the 1950s. Net reserves adjusted for wage growth, on the other hand, showed considerable variation, falling in the late 1950s. By both measures, net reserves rose dramatically during the prosperous 1960s before falling sharply in the 1970-1976 period, but never recovering to previous levels from their steep decline in the early 1970s. From 1978 to 1983, net reserves again declined sharply, becoming negative in 1981-1982. Following that recession, net reserves climbed during the recovery; in 1986, reserves adjusted for wage growth were at their highest level since 1974.

The dollar amount of reserves provide only one measure of the financial health of the trust fund. While reserves adjusted for wage growth show how the trust fund has grown relative to changes in the average wage, this measure does not control for growth in total wages in covered employment due to growth in the number of covered workers. The "reserve ratio" is the net reserves of the trust fund at the end of the calendar year divided by total wages in covered employment during that year. It controls for both average wage growth and growth in the number of jobs in covered employment in measuring the financial health of the trust fund. Chart 2.29 shows the UC trust fund reserve ratio for 1947-1986.

Chart 2.29: Unemployment Compensation Reserve Ratio, 1940 - 1986



Source: Chart prepared by CRS based on data from DoL.

Chart 2.29 shows the national trend in reserve ratios. Again, both long-term trends in program financing and cyclical changes in economic activity are evident in the reserve ratio trend. The trend shows a sharp decline in the reserve ratio in the 1950s (from more than eight at the close of World War II), a slight rise in the 1960s, followed by a sharp drop in the 1970s. The 1986 reserve ratio was the highest since 1974, but it falls well short of that of any year prior to 1974.

The national trend in reserve ratios provides a "big picture" of the financial health of UC programs. However, UC is State-run, and the financial health of individual State trust fund accounts is also important to examine. Table 2.10 shows reserve ratios by State for selected years from 1947 to 1986. As shown in the table, while most States exhibit trends similar to the national trend, there are exceptions.

TABLE 2.10. Unemployment Trust Fund Reserve Ratios, by State, for Selected Years 1947-1986

State	1947	1960	1970	1975	1979	1980	1982	1986
U.S. Total	8.44%	3.29%	3.11%	0.53%	0.91%	0.62%	-0.24%	0.98%
Alabama	6.47	2.58	2.96	0.00	0.98	0.64	0.06	2.38
Alaska	10.92	0.00	5.51	3.07	2.78	3.35	2.94	2.25
Arizona	9.50	5.38	4.25	1.35	2.36	2.40	1.66	1.99
Arkansas	9.11	4.08	2.26	0.04	0.37	0.00	0.00	0.96
California	9.77	3.80	2.91	0.88	2.51	2.46	1.83	1.73
Colorado	9.59	3.73	2.54	0.70	1.11	0.89	0.00	0.36
Connecticut	10.91	4.49	3.38	0.00	0.00	0.00	0.00	0.64
Delaware	5.95	1.79	1.72	0.00	0.00	0.00	0.00	1.97
District of Columbia	8.21	5.70	3.22	0.00	0.00	0.00	0.00	0.95
Florida	8.20	2.67	2.60	0.42	2.13	2.18	1.89	2.36
Georgia	9.06	5.06	4.74	2.28	2.28	2.14	1.49	1.75
Hawaii	8.97	4.16	2.90	0.23	2.24	2.61	2.43	3.52
Idaho	10.35	6.02	5.16	3.21	3.20	2.85	0.85	2.39
Illinois	7.05	2.52	1.55	0.00	0.00	0.00	0.00	0.00
Indiana	7.72	3.04	3.13	1.31	1.69	0.90	0.23	1.30
Iowa	9.51	5.78	3.19	0.96	1.45	1.00	0.00	1.10
Kansas	10.08	4.68	3.00	2.65	2.75	2.34	1.29	2.14
Kentucky	12.34	5.52	4.21	1.95	1.36	0.29	0.00	0.91
Louisiana	9.23	5.11	2.91	1.58	1.51	1.19	0.00	0.00
Maine	10.05	3.74	2.86	0.00	0.00	0.00	0.00	1.73
Maryland	9.14	2.24	3.26	0.29	1.83	2.38	1.11	1.88
Massachusetts	4.95	3.22	3.04	0.00	0.00	0.88	1.23	1.96
Michigan	5.06	0.00	2.49	0.00	0.25	0.00	0.00	0.00
Minnesota	8.51	1.96	1.76	0.00	0.41	0.00	0.00	0.20
Mississippi	11.96	3.59	3.87	2.25	3.47	3.33	3.12	3.76
Missouri	8.66	4.45	3.03	0.75	1.47	0.58	0.00	1.04
Montana	12.07	5.51	3.33	0.57	0.00	0.63	0.27	0.79
Nebraska	8.48	4.04	2.87	0.84	1.58	1.43	1.14	1.03
Nevada	11.82	4.26	3.20	0.22	2.31	2.79	2.20	2.87
New Hampshire	9.21	4.06	4.62	1.56	2.42	2.19	1.60	1.95

TABLE 2.10. Unemployment Trust Fund Reserve Ratios, by State, for Selected Years 1947-1986--Continued

State	1947	1960	1970	1975	1979	1980	1982	1986
New Jersey	12.89	4.13	2.76	0.00	0.00	0.00	0.00	2.02
New Mexico	8.57	5.84	3.45	1.61	2.14	2.25	1.98	1.79
New York	8.19	3.81	3.76	1.02	0.51	0.58	0.78	1.57
North Carolina	10.80	5.75	5.22	2.71	2.71	2.64	1.52	2.99
North Dakota	7.81	2.67	2.53	1.94	1.13	0.88	0.46	0.00
Ohio	8.68	2.42	3.01	0.91	1.02	0.00	0.00	0.00
Oklahoma	6.70	2.26	1.69	0.46	1.56	1.44	0.62	0.42
Oregon	8.89	2.59	3.39	0.40	3.00	3.05	1.37	2.19
Pennsylvania	7.90	0.00	3.53	0.00	0.00	0.00	0.00	0.00
Puerto Rico	0.00	0.00	4.90	0.00	0.00	0.00	0.00	3.47
Rhode Island	11.15	3.41	4.34	0.00	0.00	0.00	0.00	2.28
South Carolina	8.38	5.17	4.61	1.61	1.96	1.76	0.40	0.77
South Dakota	7.57	5.00	3.81	1.96	0.95	0.61	0.43	1.61
Tennessee	9.35	2.87	3.57	1.95	1.63	1.18	0.08	1.61
Texas	6.57	3.20	1.90	0.71	0.65	0.38	0.00	0.00
Utah	11.23	4.68	3.55	1.22	1.43	1.19	0.16	2.01
Vermont	10.60	4.53	3.72	0.00	0.00	0.00	0.00	2.44
Virginia	7.32	3.17	3.41	1.08	0.56	0.33	0.06	1.48
Virgin Islands	NA	NA	NA	NA	0.00	0.00	0.00	2.80
Washington	9.98	6.56	3.73	0.00	1.66	1.84	0.70	1.38
West Virginia	7.41	2.26	4.07	1.70	0.56	0.00	0.00	0.00
Wisconsin	10.71	5.04	4.29	0.99	2.37	1.29	0.00	0.24
Wyoming	8.38	3.95	4.29	3.02	3.15	2.83	1.48	1.44

NOTE: NA denotes not applicable.

Source: Table prepared by CRS based on data from DoL.

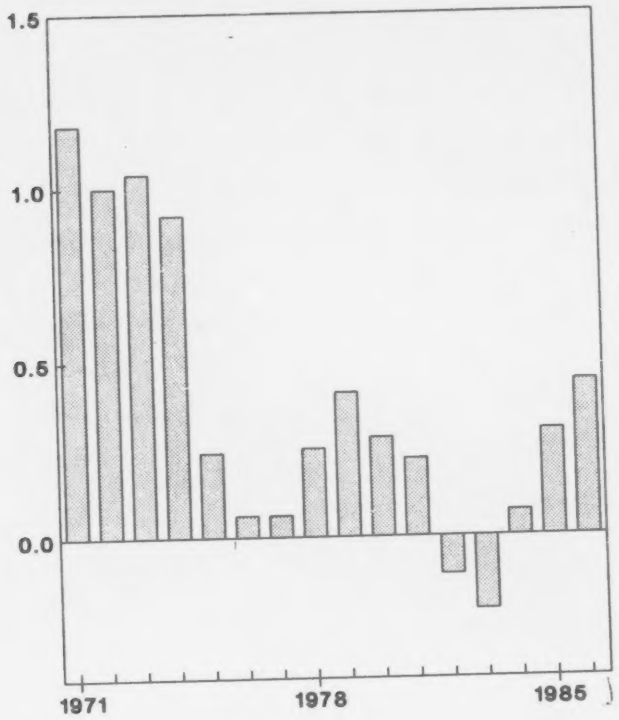
Note that some States report reserve ratios of 0.00, which means that the State either had a ratio of less than .005 or a negative balance. In 1982, 23 States had such low ratios; by 1986, this number declined to 8.

A final measure of the financial health of the trust funds is the "high cost multiple" measure. The high cost multiple is the reserve ratio divided by the "high cost rate." The high cost rate is the highest ratio of benefit payments (regular benefits plus the State share of EB) to total wages paid in covered employment that has occurred since January 1958. The Employment and Training Administration of DoL says that a high cost multiple of 1.5 is "considered to be a minimum level of reserve adequacy at the beginning of a period of relatively high unemployment." 18/

The high cost multiple is available for 1971-1986, and is shown in chart 2.30. For the Nation as a whole, the high cost multiple never reached 1.5 during any year of this period. For the 1971-1986 period, the highest level it attained was 1.18 in 1971. Moreover, during this period no State attained the 1.5 level. (See chapter 7 for a further discussion of whether the UC program is adequately financed, and for State data, 1979 and 1987, concerning reserves, reserve ratios, high cost rates, and high cost multiples.)

18/ U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Financial Data. ET Handbook 394. p. vii.

Chart 2.30: Unemployment Compensation High Cost Multiple, 1971-1986



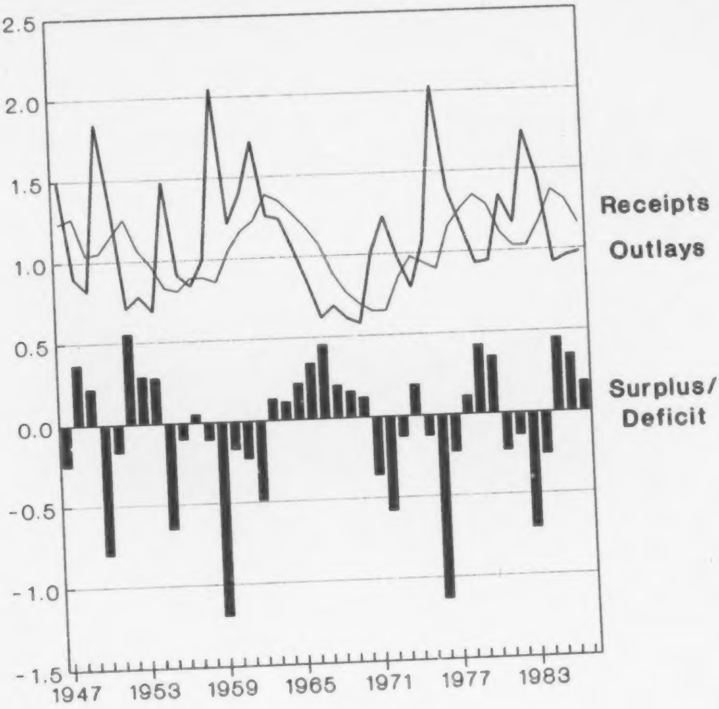
Source: Chart prepared by CRS based on data from DoL.

2. Benefit Payments and Tax Receipts

Trust fund reserves are built when UC receipts exceed outlays and depleted when outlays exceed receipts. Therefore, the financial health of the trust fund depends on the frequency and magnitude of trust fund surpluses and deficits.

Chart 2.31 shows the trend in UC receipts, outlays, and trust fund surplus and deficits as a percent of total wages in covered employment for 1947-1986. Benefit payment trends are dominated by cyclical variations. Receipts, on the other hand, show both cyclical variations and longer term trends.

Chart 2.31: Unemployment Compensation Receipts, Outlays, and Surpluses or Deficits As a Percent of Total Wages in Covered Employment, 1947-1986



Source: Chart prepared by CRS based on data from DoL.

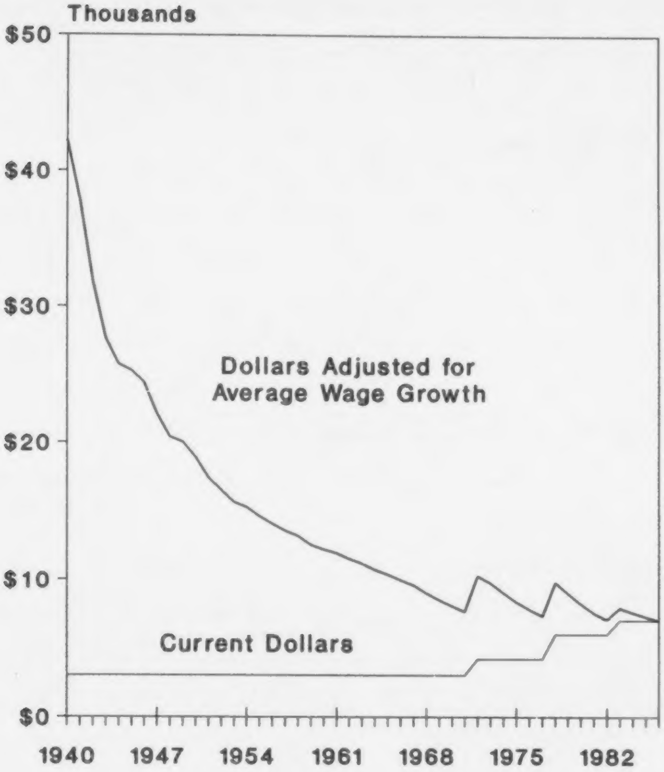
The long-term trend in receipts relative to total wages is worth noting. In the 1960s, the trust fund was generally in surplus. However, while receipts exceeded outlays from 1960 to 1970, both benefit payments and receipts fell sharply as a percent of total wages in covered employment. Total wages rose strongly in the 1960s, stemming from both growth in average wages and increases in the number of people working. In addition to the cyclical variation of receipts in the 1970-1986 period, there was a secular upward drift in receipts relative to total wages during this period.

3. Tax Rates and Tax Base

The erosion of receipts relative to total wages in the 1960s, and the subsequent upward drift in this measure, is due to the interaction of the taxable wage base and the average tax rate levied on workers' taxable wages. The taxable wage base is the maximum amount of a covered employee's wages during a calendar year upon which the UC payroll tax is assessed. For example, the 1987 Federal taxable wage base is $7,000. The first $7,000 of employees' wages are subject to the Federal payroll tax; any wages in excess of this amount are not taxable.

Chart 2.32 shows the trend in the Federal UC taxable wage base for 1947-1986. As shown in the chart, the wage base was constant ($3,000) until 1971 and has been increased in three steps since then.

Chart 2.32: Federal Taxable Wage Base In Current Dollars and Dollars Adjusted for Average Wage Growth, 1940-1986



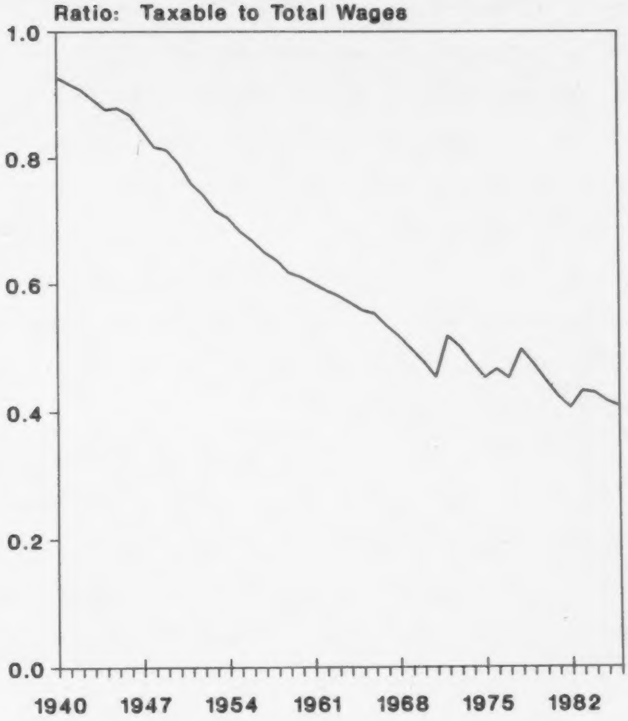
Source: Chart prepared by CRS based on data from DoL.

The chart also shows the erosion of the taxable wage base during the 1950s and 1960s relative to wage growth. The top line shows the wage base adjusted for growth in average weekly wages in covered employment; wages in past years are inflated to their 1986 value in this adjustment. The top line can also be interpreted as follows: for each year on the lower axis, it shows what the wage base would be today had it been indexed for wage growth beginning in that year. For example, for 1947 the wage base adjusted for growth in AWWs has a value of about $22,097. Had the wage base been indexed for wage growth since 1947, the wage base today would be $22,097, instead of $7,000.

The Federal taxable wage base serves two functions. First, it is the wage base for assessment of the Federal UC payroll tax. More importantly for program financing considerations, it is the minimum taxable wage base States may have if they wish to qualify for the UC tax credit. Many States have raised their taxable wage bases above the Federal minimum. (See chapter 7, on benefit financing.) However, the trend in the Federal tax base does show how the tax base has eroded in some States.

The erosion of the value of the taxable wage base in the 1950s and 1960s is also evident in the trend in the ratio of taxable to total wages in UC covered employment. Taxable wages are the total of those paid to a worker in covered employment up to the taxable wage base in the worker's State. Total wages represent all wages paid in covered employment. As shown in chart 2.33, the ratio of taxable to total wages in covered employment fell steeply in the 1950s and 1960s, fluctuating in subsequent years. In 1947, almost 85 percent of all wages in covered employment were subject to the UC payroll tax. By 1969, this proportion had declined to about 45 percent. In 1986, about 40 percent of all wages paid in covered employment were subject to the payroll tax.

Chart 2.33: Ratio of Taxable to Total Wages in Covered Employment, 1940-1986



Source: Chart prepared by CRS based on data from DoL.

The national trend in the ratio of taxable to total wages was replicated in most States. However, in 1986 there was considerable variation in this ratio. State-specific ratios for selected years from 1947-1986 are presented in table 2.11.

TABLE 2.11. Unemployment Compensation Ratio of Taxable to Total Wages, by State, for Selected Years 1947-1986

State	1947	1960	1970	1975	1980	1982	1986
U.S. Total	0.84%	0.61%	0.48%	0.45%	0.45%	0.40%	0.41%
Alabama	0.91	0.67	0.51	0.50	0.51	0.46	0.46
Alaska	0.91	0.87	0.68	0.61	0.50	0.47	0.68
Arizona	0.89	0.62	0.54	0.47	0.46	0.41	0.40
Arkansas	0.92	0.74	0.58	0.55	0.52	0.51	0.48
California	0.83	0.65	0.51	0.42	0.42	0.36	0.35
Colorado	0.86	0.62	0.46	0.45	0.44	0.38	0.41
Connecticut	0.85	0.59	0.45	0.52	0.40	0.38	0.32
Delaware	0.80	0.61	0.47	0.39	0.38	0.36	0.40
District of Columbia	0.82	0.60	0.43	0.41	0.39	0.39	0.35
Florida	0.88	0.67	0.50	0.50	0.50	0.44	0.43
Georgia	0.88	0.69	0.51	0.49	0.47	0.41	0.41
Hawaii	0.89	0.69	0.68	0.66	0.68	0.70	0.69
Idaho	0.90	0.67	0.57	0.50	0.67	0.69	0.69
Illinois	0.81	0.56	0.41	0.40	0.41	0.39	0.38
Indiana	0.86	0.59	0.44	0.43	0.41	0.38	0.37
Iowa	0.88	0.63	0.46	0.45	0.50	0.51	0.58
Kansas	0.88	0.63	0.48	0.48	0.45	0.40	0.48
Kentucky	0.90	0.65	0.49	0.47	0.45	0.49	0.44
Louisiana	0.87	0.64	0.48	0.46	0.45	0.38	0.40
Maine	0.91	0.70	0.52	0.54	0.51	0.46	0.44
Maryland	0.87	0.63	0.46	0.44	0.43	0.37	0.37
Massachusetts	0.85	0.62	0.50	0.44	0.46	0.42	0.38
Michigan	0.83	0.54	0.46	0.38	0.37	0.33	0.39
Minnesota	0.85	0.59	0.59	0.48	0.51	0.46	0.47
Mississippi	0.92	0.74	0.57	0.56	0.53	0.46	0.46
Missouri	0.84	0.60	0.44	0.44	0.43	0.40	0.41
Montana	0.90	0.67	0.52	0.54	0.63	0.62	0.71
Nebraska	0.86	0.65	0.49	0.46	0.46	0.42	0.42
Nevada	0.87	0.71	0.56	0.59	0.59	0.57	0.59
New Hampshire	0.91	0.70	0.51	0.52	0.48	0.42	0.41

TABLE 2.11. Unemployment Compensation Ratio of Taxable to Total Wages, by State, for Selected Years 1947-1986--Continued

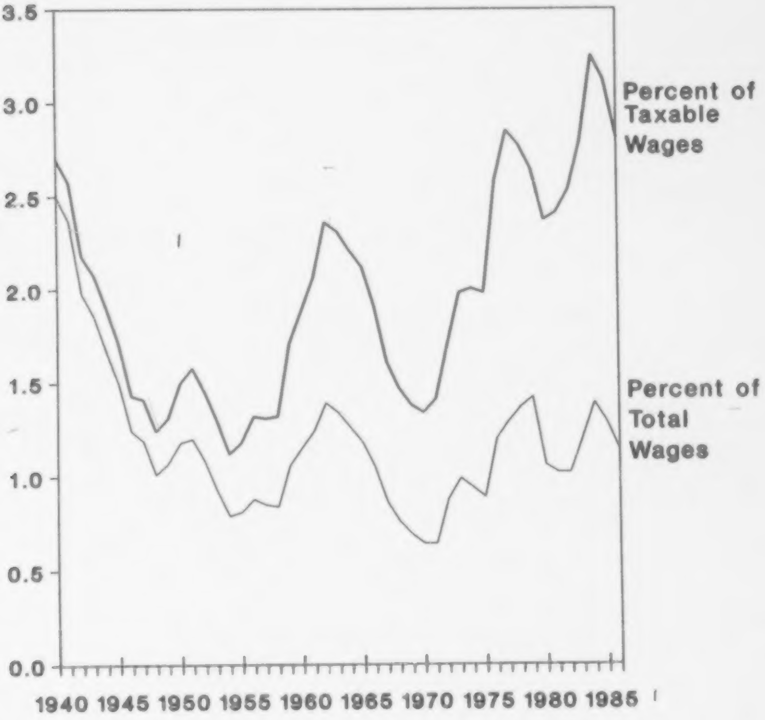
State	1947	1960	1970	1975	1980	1982	1986
New Jersey	0.84	0.57	0.48	0.45	0.45	0.44	0.46
New Mexico	0.91	0.65	0.51	0.52	0.54	0.54	0.55
New York	0.79	0.57	0.41	0.40	0.39	0.34	0.32
North Carolina	0.91	0.73	0.54	0.53	0.50	0.44	0.52
North Dakota	0.88	0.68	0.59	0.46	0.55	0.56	0.57
Ohio	0.84	0.56	0.42	0.41	0.40	0.36	0.39
Oklahoma	0.86	0.64	0.49	0.48	0.43	0.37	0.46
Oregon	0.87	0.73	0.53	0.52	0.61	0.59	0.63
Pennsylvania	0.86	0.60	0.50	0.43	0.42	0.40	0.40
Puerto Rico	0.00	0.00	0.68	1.00	1.00	1.00	0.59
Rhode Island	0.87	0.74	0.55	0.53	0.54	0.55	0.55
South Carolina	0.92	0.74	0.54	0.54	0.50	0.45	0.44
South Dakota	0.89	0.67	0.51	0.53	0.50	0.45	0.46
Tennessee	0.89	0.68	0.54	0.46	0.48	0.43	0.41
Texas	0.86	0.63	0.48	0.47	0.44	0.38	0.38
Utah	0.88	0.62	0.60	0.48	0.65	0.62	0.58
Vermont	0.91	0.69	0.55	0.51	0.50	0.44	0.47
Virginia	0.89	0.67	0.51	0.49	0.48	0.41	0.39
Virgin Islands	NA	NA	NA	NA	0.54	0.34	0.78
Washington	0.87	0.60	0.44	0.58	0.56	0.55	0.53
West Virginia	0.87	0.60	0.51	0.43	0.42	0.47	0.42
Wisconsin	0.85	0.58	0.51	0.43	0.42	0.34	0.50
Wyoming	0.89	0.66	0.58	0.49	0.44	0.38	0.51

NOTE: NA denotes not applicable.

Source: Table prepared by CRS based on data from DoL.

The other major variable in determining receipts is the tax rate. In chart 2.34, the tax rate is displayed as a percent of both taxable and total wages in covered employment for 1947 to 1986. The trends in both measures are similar. However, given that the ratio of taxable to total wages has declined, the gap between the two measures has widened considerably. Average tax rates as a percent of both taxable and total wages declined sharply in the 1963 to 1970 period, a period when trust fund accounts were comparatively well-funded. With the deterioration of trust fund financial prosperity in the 1970s and 1980s, tax rates began a secular upward drift, interrupted several times by cyclical changes. Tax rates have apparently been increased in years following recessions to replenish depleted trust funds.

Chart 2.34: Average Unemployment Compensation Tax Rates As a Percent of Total and Taxable Wages In Covered Employment, 1940-1986



Source: Chart prepared by CRS based on data from DoL.

CHAPTER 3: RECENT LEGISLATIVE HISTORY*

The Unemployment Compensation (UC) system has been amended throughout its 53-year history in an effort to keep it responsive to a changing national economy. This chapter reviews the changes in policy that were made during the 1970s, when a severe recession confronted the program, and during the early 1980s, when even higher unemployment occurred. The first section describes the significant changes voted by Congress in those years. The last section reviews legislation adopted by States in response to Federal mandates and to changing economic conditions. State UC laws govern many important program features, including benefit amounts, financing, eligibility requirements, and coverage provisions.

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* Part I of this chapter was prepared by Gloria Moreno and part II by Celinda Franco of the Education and Public Welfare Division, Congressional Research Service.

I. FEDERAL LEGISLATION IN THE 1970S AND 1980S

Although the basic Federal role in the UC program has seen little structural change since it began more than 50 years ago, major changes in coverage, benefit duration, and benefit taxation have been legislated since 1974. This section discusses the 1973-1975 recession--the most severe at that time since the Great Depression. It describes the emergency legislation enacted to combat the recessionary effects and the subsequent restraints on Federal benefits. Finally, this section examines specific changes in UC in the areas of coverage, benefit taxation, financing, and Federal requirements. (Appendix B lists the major Federal UC legislation enacted from 1977 to 1988.)

A. Emergency Legislation and Later Cutbacks

1. 1973-1975 Recession

The severity of the 1973-1975 recession is evident from the numbers of unemployed workers and the level of benefit expenditures. The average monthly number of unemployed workers in 1974 and 1975 totaled approximately 5.2 million and 7.9 million, respectively, 5.6 percent and 8.5 percent of the civilian labor force. Moreover, at some time during 1974, 18.5 million persons were unemployed, and during 1975, 21.1 million. The number of recipients of unemployment compensation totaled 5.7 million in 1973, rising to 8.1 million in

1974, and peaking in 1975 at 12.7 million. By 1976, the number had declined to 10.1 million beneficiaries. In fiscal year 1973, total benefits paid amounted to $4.6 billion, increasing in 1974 to $7.0 billion, and peaking in 1975 at $18.1 billion. In 1976, expenditures fell to $16.4 billion.

2. Expansion of Eligibility for Extended Benefits (EB)

Between 1972 and 1976, as the recession deepened and stretched out, Congress repeatedly acted to make it easier for States to qualify for Extended Benefits (EB), for which Federal funds paid half the cost. In eight successive bills 1/ it temporarily suspended the provision of permanent EB law requiring that, to qualify for EB, a State's insured unemployment rate (IUR) had to be one-fifth higher than the average rate for the corresponding 13-week periods in the previous 2 years (unless the absolute level were an IUR of 5 percent).

3. Offering of Federal Supplemental Benefits (FSB)

In 1974, Congress established a program of fully Federal UC benefits for persons who had exhausted EB help. The new program, called Federal Supplemental Benefits (FSB), was a provision of the Emergency Unemployment Compensation Act of 1974 (P.L. 93-572). Intended to provide emergency assistance, this Act authorized up to 26 weeks of FSB for qualified workers. This brought maximum potential duration of UC to 65 weeks (26 weeks of regular benefits, 13 weeks of EB, and 26 weeks of FSB). Eligible to receive the federally paid supplemental benefits were workers who had exhausted both

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1/ These eight bills were P.L. 92-559, approved Oct. 27, 1972; P.L. 93-53, approved July 1, 1973; P.L. 93-233, approved Dec. 31, 1973; P.L. 93-256, approved Mar. 28, 1974; P.L. 93-329 approved June 30, 1974; P.L. 93-368 approved Aug. 7, 1974; P.L. 93-572, approved Dec. 31, 1974; and P.L. 94-45, approved June 30, 1975.

regular UC and EB, were still unemployed, had met State eligibility conditions of work search and availability, and were free from any disqualification. In June 1975, the FSB program was amended (P.L. 94-45) to limit the maximum FSB benefit duration to 13 weeks in a period when the unemployment rate was 5 percent and to provide for its expiration on March 31, 1977.

4. Restraints on Federal Benefits

Concern over the growth in UC benefits and the system's cost during the 1973-75 recession led Congress in 1976 to establish a National Commission on Unemployment Compensation, charged with making a comprehensive review of the system, including coverage, benefits and financing (P.L. 94-566). For a summary of the Commission's recommendations see appendix D.

Beginning in 1977, the temporary benefit liberalizations enacted in response to the recession were ended. Eligibility was tightened, and benefits periods were shortened. One program expired.

a. FSB cutbacks and expiration. Two months before the scheduled end of FSB, in January 1977, when the program already had been discontinued in many States because their IUR had declined below the qualifying level, outgoing President Ford recommended that Congress let the FSB program die. "Preliminary analysis indicates that 61 percent of FSB recipients had family incomes above the poverty level even when FSB benefits were excluded from their income," said his FY 1978 budget. "This raises the substantial question as to whether public funds should be used for such an extended period of time to provide benefits to people who do not have to show need." 2/

2/ The Budget of the United States Government. Fiscal Year 1978. Washington, Jan. 1977. p. 171.

Instead of permitting FSB to die, Congress in April 1977 modified it and extended it briefly. As recommended by President Carter in budget revisions that he submitted in February 1977, 3/ Congress reduced the duration of FSB benefits from 26 to 13 weeks (P.L. 95-19). The new law also adopted a concept of "suitable" work for FSB claimants that excluded considerations of past experience and wages, 4/ imposed a special disqualification for work refusal by FSB claimants, and provided general revenue financing of FSB (a 100-percent federally financed program) for the period from April 1977 until it expired on October 31, 1977.

b. EB cutbacks. In the Omnibus Reconciliation Act (ORA) of 1980 (P.L. 96-499), Congress targeted EB more narrowly to States with high unemployment by eliminating the (50 percent) Federal share of the cost of the first week of EB in any State not having a "waiting week" for regular benefits, and limiting EB claimants' right to refuse jobs as "unsuitable." "Suitable" employment for a recipient of Federal-State EB, previously a matter of State discretion, was defined by Congress as, generally, any work within the unemployed person's "capabilities." Under the new law, an EB claimant who did not provide satisfactory evidence of prospects for finding work in his/her "customary occupation" within a reasonably short period was required to accept instead a job paying gross wages equal to at least the higher of: (1) the

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3/ U.S. Office of Management and Budget. Executive Office of the President. Fiscal Year 1978 Budget Revisions. Feb. 1977. p. 62.

4/ Except for stating some labor standards, Federal law then was silent on the issue of "suitable" work for an UC claimant, and States decided when a claimant of either regular UC or EB could refuse a job offer as unsuitable. The Internal Revenue Code (sec. 3304)(a)(5) specified that, to be approved, a State UC law must not deny UC to an otherwise eligible person for refusing to accept new work "if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality."

highest of the Federal, State, or local minimum wage; or (2) the combined value of the UC benefit and private supplemental UC. Thus, most workers were expected to accept jobs paying at least their area's legal minimum wage rate after receiving 26 weeks of regular benefits and qualifying for EB.

In 1981 Congress restricted the EB program further. In the Omnibus Budget Reconciliation Act (OBRA) of 1981 (P.L. 97-35) it adopted four measures recommended by the Reagan Administration to target EB more narrowly to States with high unemployment. 5/ First, it repealed the national EB trigger, conditioning EB wholly upon State unemployment. Second, it excluded EB recipients from counts of the insured unemployed population used in calculating the State insured unemployment rate (IUR). The result was to reduce a State's measured IUR, making it harder for the State to qualify for EB by reaching the State trigger level. Third, it raised the required State trigger IUR from 4 percent to 5 percent (and retained the rule that the IUR must be at least 120 percent of the average rate in the comparable period of the previous 2 years). Fourth, it raised from 5 percent to 6 percent the IUR rate that would enable States (without regard to unemployment in past years) to qualify for EB, if they so chose.

The Administration said these measures to withdraw EB from States without high insured unemployment would remove a disincentive for some unemployed workers in tight labor markets to seek other jobs. 6/

5/ The Reagan Administration's "Program for Economic Recovery" classified "basic unemployment benefits" as a core component of the "social safety net." It said such components "can now be maintained at present levels," but proposed to save $1.2 billion (in the first full year of implementation) by restricting EB. The White House. America's New Beginning: A Program for Economic Recovery. Part III. President's Budget Reform Plan, Feb. 18, 1981. p. 13-14.

6/ America's New Beginning: A Program for Economic Recovery. p. 1-22.

5. Limits on Regular Benefits

In passing OBRA of 1981, Congress also placed some limits on regular benefits. 7/ As recommended by the Reagan Administration, it disqualified for UC ex-service members who quit the service voluntarily, that is, those who had the option to reenlist but chose not to. Further, it required UC benefits to be offset (reduced) by the amount of child support owed by a claimant.

B. Other Federal Legislation: Coverage, Benefit Taxation, Financing

In addition to the above legislation, Congress adopted other measures during the 1970s and 1980s, concerning coverage, benefit taxation, financing, and new Federal requirements for approval of State UC laws.

1. Coverage

In the early 1970s, major extensions occurred in UC coverage. The Employment Security Amendments of 1970 (P.L. 91-373) reduced the size of firms subject to the Federal Unemployment Tax Act (FUTA) from those with four employees in 20 weeks, to those with one worker, with an alternate test of a quarterly payroll of $1,500 or more. This bill also extended coverage to employees in agricultural processing, services on aircraft and vessels, and services performed for American employers overseas.

Another benefit coverage extension measure, the special unemployment assistance (SUA) program (P.L. 93-567), created a temporary emergency program

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7/ However, Congress rejected a Reagan Administration proposal to tighten the definition of "suitable" work for regular UC claimants. The proposal was to apply the same work test after 13 weeks of regular benefits that Congress had enacted in P.L. 96-499 for EB claimants (that is, generally to require them to accept as suitable a job paying their area's legal minimum wage rate or, if higher, their UC benefit amount).

of federally financed benefits for workers not protected under State or Federal UC laws. This program provided that benefits be paid under the terms and conditions of State laws as though the services had been covered. This program, originally scheduled to expire in 1975, was extended until 1978 (P.L. 94-566), when coverage for most of these services became effective under the regular UC program.

Congress further extended program coverage by making State coverage of certain jobs a condition for Federal tax credit eligibility. Services performed for nonprofit organizations employing at least four workers, for State hospitals, and for State institutions of higher education were affected by this coverage extension.

The last major coverage expansion (P.L. 94-566) gave UC protection to these groups: agricultural workers on large farms; household workers of employers who paid at least $1,000 for such services in a calendar quarter; most State employees; and most local government employees. This Act converted coverage under SUA to coverage under State law by providing that, if a State not only provided coverage prospectively from January 1978 but also permitted benefit payments on the basis of wages earned before that date, the Federal Government would reimburse the State for the cost of benefits based on such wages.

As a result of these program extensions, coverage of wage and salary workers rose from 65 percent in 1970 to 97 percent in 1987, where it stands today.

2. Taxation of Benefits

a. Taxation of some UC benefits. Congress ended the tax-free status of UC benefits, effective in 1979. In his FY 1979 budget, President Carter proposed including UC benefits as taxable income for single taxpayers with annual income of $20,000, and for married couples filing joint returns with income of more than $25,000. 8/ In the Revenue Act of 1978 (P.L. 95-600), Congress voted instead to phase out the tax exemption for UC benefits received by single taxpayers with an annual adjusted gross income, including UC benefits, in excess of $20,000, (in excess of $25,000 for married couples filing jointly). 9/

In the Tax Equity and Fiscal Responsibility Act (TEFRA) (P.L. 97-248), Congress in 1982 reduced the income levels at which UC benefits were taxable to $12,000 and $18,000, respectively.

Congress acted through the Tax Reform Act of 1986 (P.L. 99-514) to make all UC benefits received after December 31, 1986 subject to the Federal income tax.

3. Financing

In 1970, the gross Federal unemployment tax rate was increased to 3.2 percent, with a tax credit of 2.7 percent for States. The result was to increase the net FUTA tax to 0.5 percent from 0.4 percent (P.L. 91-373). This increase was the first since the 1961 amendments, which had increased the gross

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8/ The Budget of the United States Government. Fiscal Year 1979. Jan. 1978. p. 197.

9/ P.L. 95-600 made subject to tax from 50 percent to 100 percent of UC benefits of taxpayers whose adjusted gross income, exclusive of UC payments, equalled or exceeded the base amount.

Federal tax rate from 3.0 to 3.1 percent and the net Federal tax from 0.3 to 0.4 percent. The 1970 amendments specifically targeted the increase in 1970 and 1971 for the Federal Extended Unemployment Compensation Account (EUCA).

The 1973 amendments, enacted to finance the Emergency Extended Unemployment Compensation Act of 1971, temporarily increased the gross Federal tax to 3.28 percent.

The 1976 amendments (P.L. 94-566) increased the gross tax rate to 3.4 percent, with 0.7 percent designated as the net Federal tax. That Act also provided that the tax rate would revert to 3.2 percent after all advances to EUCA had been repaid.

The TEFRA of 1982 (P.L. 97-248) raised the gross FUTA tax rate from 3.4 to 3.5 percent effective on January 1, 1983 and 6.2 percent effective on January 1, 1985. The offset credit for State employers increased to 5.4 percent, raising the net Federal tax rate to 0.8 percent (a permanent tax of 0.6 percent plus a temporary 0.2 percent tax that was to continue in effect until all general revenue advances to EUCA had been repaid). The effective date of this Act was January 1, 1985, but it provided a 5-year phase-in period for State laws, which then provided a uniform rate above 2.7 percent for certain groups of employers. This measure also included an increase in the FUTA wage base from $6,000 to $7,000. Thus, it required States to adopt a taxable wage base of at least $7,000 in order for the State's employers to qualify for the full FUTA tax credit.

The OBRA of 1987 (P.L. 100-203), which became effective on January 1, 1988, extended the 0.2 percent surtax extension until 1990. Additional revenue from the 1988 surtax extension is to build reserves in the Federal Unemployment Account (FUA) and EUCA and help avoid future debt. These changes in financing are summarized in table 3.1.

TABLE 3.1. Financing Legislation, 1961-1988

Effective date	FUTA tax rate Gross tax rate	FUTA tax rate Net tax rate	Federal taxable wage base
1961 a/	3.1%	0.4%	$3,000 b/
1970 c/	3.2	0.5	4,200
1973 d/	3.28	0.58	4,200
1977 e/	3.4	0.7	6,000
1983 f/	3.5	0.8	7,000
1985 g/	6.2	0.8	7,000
1988 h/	6.2	0.8	7,000

a/ Public Law 86-718.

b/ Established in 1939 by the social security board.

c/ Public Law 91-373.

d/ This amendment was a temporary measure, lasting one year, enacted to finance the Emergency Extended Unemployment Compensation Act of 1971.

e/ Public Law 94-566 provided that the tax rate would revert to 3.2 percent after all advances to EUCA had been repaid.

f/ Public Law 97-248 provided that employers in States with approved UI laws would continue to receive a 2.7-percent credit against the new FUTA tax rate of 3.5 percent.

g/ Public Law 97-248.

h/ Public Law 100-203.

4. Conditions for Approval of State UC Law

Several new Federal requirements for State programs were enacted during the 1970s. In order for a State's employers to receive the UC tax credit, the State UC law was required to make several extensions of coverage or service. The 1970 amendments (P.L. 91-373) required States to extend coverage to governmental and nonprofit institutions of higher education. The 1976 amendments (P.L. 94-566) required States to extend coverage to most services performed in the employ of State and local governments and of nonprofit organizations. Other new Federal rules that States were required to adopt to retain eligibility of their employers for the FUTA tax credit are as follows:

- o denying UC benefits between school terms to certain school employees;
- o offering the reimbursement option of financing benefit costs to nonprofit and public employers;
- o enacting all provisions of the EB program;
- o denying benefits in a second successive benefit year unless the claimant has had some work since the beginning of the first benefit year;
- o prohibiting denial of benefits on grounds of unavailability or work refusal to claimants taking training that has the approval of the agency;
- o prohibiting the denial or reduction of benefits because a person files a claim or resides in a State other than where wage credits were earned;
- o participating in arrangements for combining wages when the earnings are in two or more States; and
- o prohibiting cancellation of wage credits or total reduction of benefit rights except for work-related misconduct, a fraudulent claim, or receipt of disqualifying income.

Because of the increase in the number and variety of Federal requirements in the 1970 amendments, those amendments permitted a State to seek judicial review of an adverse determination on a conformity issue by the Secretary of Labor.

II. RECENT STATE INITIATIVES

A. Major Initiatives Since 1978

Since 1978, many States have revised their UC laws. This section discusses such changes in four areas: program eligibility, benefit eligibility, benefit levels, and program financing. [10]

1. Program Eligibility

Between 1978 and 1987, new State laws tended to restrict the categories of employment eligible to receive UC benefits. In this period, States enacted some laws to comply with new Federal directives that particular types of workers be ineligible for benefits during certain periods of unemployment. For example, States implemented Federal legislation prohibiting UC benefits for:

- professional and nonprofessional employees of educational institutions when schools are out of session if the employees are reasonably assured of continued employment during the next school term; and,
- professional athletes for the period between sport seasons.

Services performed by these individuals remain covered and taxable. On their own initiative, several States further altered their laws to exclude the services of certain corporate officers from the definition of eligible employment under their UC programs.

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[10] This discussion is primarily based on State law changes reported in the annual article published in Monthly Labor Review issues for 1978-1987.

In addition, some States denied eligibility to workers involved in job-training. Thus, Mississippi in 1978 made ineligible the participants in the Comprehensive Employment and Training Act (CETA) program. In 1981, Virginia similarly excluded CETA participants from eligibility for UC benefits. The rationale for excluding workers in job-training was the worker's inability to accept an offer of employment or to actively seek employment. In addition, a 1978 Tennessee law excluded individuals receiving work relief services or work training from the definition of covered employment. All State laws require that an individual be able to work, available for work and seeking work in order to qualify for and receive UC benefits, and States define "suitable" work for a claimant of regular UC benefits; for EB, Federal law defines "suitable" work. The claimant is required to register with the State Employment Service office and be actively seeking work to remain eligible to receive benefits.

2. Benefit Eligibility

The Federal Government sets no standards for determining qualifying requirements, benefit amounts, or duration of regular UC benefits. As a result, each State has developed its own formulas for determining a worker's benefit rights.

To receive benefits, a claimant must be free of State-determined "disqualifications." A claimant cannot refuse an offer of, or referral to, suitable work without risking being disqualified for UC benefits, unless the employment offer or referral was refused for good cause reasons determined by the State. State disqualification provisions and definitions of "good cause," "misconduct," and "suitable work" 11/ vary widely, as do the sanctions States impose on individuals determined to be disqualified. These measures include: postponing the paying of benefits; reducing the claimant's benefit entitlement; or denying benefits until the individual is re-employed and has worked for a certain minimum period before becoming unemployed again for nondisqualifying reasons.

a. Longer disqualification periods. Since 1978, States have significantly altered their criteria for benefit eligibility. Over this 10-year period, States have lengthened periods of disqualification (for specified disapproved behavior) and significantly restricted the definition of "good cause" for voluntarily leaving employment. The three major reasons for disqualification are: (1) discharge for misconduct; (2) voluntarily leaving work without good cause; and (3) refusal of suitable work. Under such a disqualification, States deny benefits for a period of time, or until a specified amount of wages is earned in subsequent work, or both. The most common period of disqualification, for the three major causes under existing State laws, is the entire duration of an individual's spell of unemployment. 12/

The penalty period for denial of UC benefits for at least one of the three major disqualifications was extended throughout a claimant's unemployment spell by 21 States between 1978 and 1987. In addition, four States modified existing laws to extend the duration disqualification to all three of the major eligibility disqualifications.

11/ States determine "suitable" work for claimants of regular benefits, but, as noted earlier, Federal law contains a definition for claimants of EB.

12/ National Foundation for Unemployment Compensation and Workers' Compensation. Highlights of State Unemployment Compensation Laws. Washington, D.C., Jan. 1988. p. 3.

b. Higher wage requirements to end disqualification. In 1979, Florida added the provision that a claimant's disqualification would be for the duration of the unemployment period and until the claimant had earned 17 times the weekly benefit amount (WBA) in subsequent employment. Other States also imposed a wage requirement beyond the time duration disqualification, with amounts varying by State. Oregon amended its law in 1981, requiring that the benefit amount of a disqualified claimant be reduced by eight times the WBA in order to "purge" the disqualification. In 1987, Wisconsin passed a severe disqualification law that requires a duration disqualification period and earnings equal to 14 times the WBA. Throughout this period, all States that altered UC laws increased the WBA earnings required to purge disqualifications.

c. Higher wage requirements for eligibility. States also significantly altered eligibility requirements by increasing the amount of high-quarter wages (HQW) or base-period wages (BPW) required to qualify for benefits. Several more than doubled such wage requirements. For example, Arizona almost tripled the amount of HQW needed to qualify for UC benefits between 1978 and 1982, raising it from $375 in 1978 to $725 in August 1979 and to $1,000 in 1982. New Hampshire raised the requirement in 1979 from $300 to $600 in HQW and raised it again to $800 in 1981. In 1980, Idaho increased the HQW amount from $415.01 in 1979 to $910.01. South Carolina changed existing laws in 1982, raising the HQW level from $180 to $540 while also increasing the BPW amount from $300 to $900. Similarly, Utah increased the HQW from the previous year's requirement of $700 to $1,200, while the District of Columbia doubled its BPW from $450 to $900 and its HQW from $300 to $600.

d. Income disqualifications. Income disqualifications also were widely used by States to limit the number of eligible UC recipients. The pension offset is an example of one form of income disqualification taken against weekly UC benefits. Enacted into law in the Unemployment Compensation Amendments of 1976 (P.L. 94-566), this provision required States to prohibit payment of full UC benefits to a claimant receiving a pension. States were required to reduce an individual's weekly UC benefits by the weekly prorated amount of any pension, annuity, or similar payment that the claimant receives. The provision was enacted so that an individual could not simultaneously collect both retirement benefits and UC based on the same employment. A later amendment of this provision (P.L. 96-364) modified the requirement, and States now have the option to limit the amount of a pension offset to the portion of an employee's pension funded by the base period employer. States also are allowed to deduct an individual's own contribution to the pension from the offset amount. However, States may, and some do, apply their offset provisions to all pensions from all employers, however funded.

In addition to the pension offset, other income disqualifications were adopted by States between 1978 and 1987, reducing the UC program's benefit costs by defining vacation pay and lump-sum pension payments as income to be subtracted from UC benefits. While some States have always had some of these types of provisions in their laws, during the period between 1978 and 1987 such provisions grew more widespread.

3. Benefit Levels

States control the benefit levels of UC recipients. Most States have enacted increases in the provisions for minimum and/or maximum WBA in recent years. In 1982, a total of 34 States paid maximum UC benefits to a worker without a dependent below $150 per week; in 1987, there were only 11 such States. Over this 6-year period, however, the pattern of benefit changes was irregular. California made no change in its minimum benefit of $30, but increased its maximum benefit by 22 percent. Ohio quadrupled its minimum payment to $42, but raised its maximum only 7 percent. Some States with WBA formulas indexed to the State's average weekly wage froze benefit levels in an attempt to contain increases in the WBA during periods of increasing unemployment and large deficits in their trust fund accounts. States enacting such measures include: Connecticut in 1982 and 1983; South Dakota in 1982 and continuing until 1987; Utah in 1982 until 1984; the District of Columbia in 1983 until 1986; Idaho in 1983 and 1984; Kansas in 1983 and 1984; Louisiana in 1983 continuing indefinitely; Ohio in 1983 continuing until 1987; Montana in 1985 and 1986; West Virginia in 1985 until 1988; and Texas in 1987 until 1989. In addition, other measures intended to contain benefit levels decreased the maximum duration of weekly benefits. With the exception of Washington and Massachusetts, States with maximum benefit durations above 26 weeks for their regular UC program altered their laws to lower the potential maximum duration to 26 weeks. They are: New Mexico and Iowa (1979); the District of Columbia, Louisiana, Pennsylvania, and Wisconsin (1983); and West Virginia (1985).

4. Program Financing

Many of the amendments to State laws during this decade were designed to strengthen the financial base for the UC program. Many States raised their maximum tax rates, and some enacted provisions designed to trigger extra temporary taxes to increase their UC trust funds. (See chapter 7.)

As early as 1979, Hawaii imposed an addition to the employer contribution rate, determined annually on the basis of the most recent reserve fund level, as a trust fund solvency measure. Amendments to State tax provisions were diverse, but financial provisions generally raised the maximum tax rates or made provision for extra assessments, or both, to bolster the State's trust fund accounts.

In addition to increasing tax rates, several States raised the taxable wage base. Because the Tax Equity and Fiscal Responsibility Act (P.L. 97-248) raised the Federal taxable wage base from $6,000 to $7,000, States with wage bases below $7,000 had to increase their taxable bases to retain eligibility for the FUTA tax credit for their employers. However, many States found it necessary to increase State wage bases substantially above the new Federal base level in order to generate needed revenue. During the period, 1983-1988, seven States increased their wage base each year, while five States increased the wage base once in 1983 to $8,000 and have not raised it again since that time. In 1982, Minnesota amended its law to index the taxable wage base to the State average annual wage (AAW), setting the base at 60 percent of that wage, rounded to the nearest $100, and adjusted annually. Missouri changed State law in 1984 to automatically increase (or decrease) the taxable wage base by $500 if the trust fund balance fell below (or exceeded) a certain amount. Washington reduced its taxable wage base to $10,000 for 1985, while establishing that the future base would be computed at 115 percent of the amount of taxable wages for the previous year, rounded down to the lower $100. Currently, 35 States have taxable wage bases that exceed the Federal taxable wage base of $7,000 (see table 3.2).

TABLE 3.2. State Taxable Wage Bases, End of Year

State	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Alabama	$6,600	$6,600	$6,600	$6,600	$6,600	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000
Alaska	10,000	10,000	10,000	13,300	14,600	20,200	21,400	21,800	21,600	21,500	21,100
Arizona	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Arkansas	6,000	6,000	6,000	6,900	6,900	7,500	7,500	7,500	7,500	7,500	7,500
California	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Colorado	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	9,000	10,000
Connecticut	6,000	6,000	6,000	6,000	7,000	7,100	7,100	7,100	7,100	7,100	7,100
Delaware	6,000	6,000	6,000	6,000	6,600	7,200	8,000	8,000	8,250	8,500	8,500
District of Columbia	6,000	6,000	6,000	6,000	7,500	8,000	8,000	8,000	8,000	8,000	8,000
Florida	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Georgia	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,500	7,500	7,500
Hawaii	9,800	10,400	11,200	12,200	13,100	13,800	14,600	15,100	15,600	16,500	8,700
Idaho	9,600	10,200	10,800	12,000	13,200	14,400	14,400	15,000	15,600	16,200	16,200
Illinois	6,000	6,000	6,500	6,500	7,000	8,000	8,000	8,500	8,500	8,500	9,000
Indiana	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Iowa	6,500	6,900	7,400	8,000	8,700	9,400	10,400	11,200	12,000	12,300	11,000
Kansas	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	8,000	8,000
Kentucky	6,000	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Louisiana	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	8,500
Maine	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Maryland	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Massachusetts	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Michigan	6,000	6,000	6,000	6,000	6,000	8,000	8,500	9,000	8,500	9,500	9,500
Minnesota	7,500	8,000	8,000	8,000	8,300	9,000	9,800	10,300	10,700	11,200	11,700
Mississippi	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Missouri	6,000	6,000	6,000	6,000	6,600	7,000	7,000	8,000	8,000	7,500	7,000
Montana	6,000	7,400	7,600	7,800	8,000	8,200	8,400	8,600	12,200	12,400	12,600
Nebraska	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Nevada	6,900	7,400	7,900	8,400	9,300	10,200	10,700	11,100	11,400	11,700	12,100
New Hampshire	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
New Jersey	6,200	6,600	6,900	7,500	8,200	8,800	9,600	10,100	10,700	11,300	12,000
New Mexico	6,100	6,600	7,200	8,000	8,500	9,300	9,800	10,000	10,300	10,700	10,800
New York	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
North Carolina	6,000	6,000	6,000	6,000	6,000	7,000	8,200	8,700	9,200	9,600	10,100
North Dakota	6,000	7,000	7,600	8,400	9,240	10,150	10,400	10,700	10,800	10,800	11,000

TABLE 3.2. State Taxable Wage Bases, End of Year--Continued

State	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Ohio	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	8,000	8,000
Oklahoma	6,000	6,000	6,000	5,000	6,000	7,000	7,000	7,000	8,900	9,100	9,100
Oregon	8,000	9,000	10,000	10,000	11,000	12,000	13,000	13,000	14,000	14,000	14,000
Pennsylvania	6,000	6,000	6,000	6,300	6,600	7,000	8,000	8,000	8,000	8,000	8,000
Puerto Rico	Total	Total	Total	Total	Total	Total	Total	7,000	7,000	7,000	7,000
Rhode Island	6,000	6,000	7,200	7,800	8,600	9,200	10,000	10,600	11,000	11,400	12,000
South Carolina	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
South Dakota	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Tennessee	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Texas	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	8,000
Utah	9,600	10,400	11,000	12,000	12,000	12,000	13,300	12,100	12,600	12,900	13,200
Vermont	6,000	6,000	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000
Virginia	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Virgin Islands	6,000	6,000	6,000	6,000	8,000	8,000	8,000	14,000	14,500	14,000	NA
Washington	8,400	9,000	9,600	10,200	10,800	11,400	12,000	10,000	11,500	13,200	15,100
West Virginia	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Wisconsin	6,000	6,000	6,000	6,000	6,000	8,000	9,500	9,500	10,500	10,500	10,500
Wyoming	6,000	6,000	6,000	6,000	6,000	7,000	9,900	9,500	9,900	10,300	10,200
U.S.	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000

Source: Table prepared by Congressional Research Service based on data from DoL.

B. Policy Implications

Since 1979, significant cutbacks in the availability of UC benefits have occurred. Federal and State policy changes reduced benefit availability during the 1980s. State legislation designed to improve program solvency generally restricted benefit availability. Legislative action of this type was most noticeable after enactment of the 1983 Social Security Amendments, which offered financial incentives to indebted States that revised their laws to raise taxes and reduce benefits. Many of the energy-producing States also enacted benefit restrictions after 1984 in response to costs imposed by the decline in the oil industry.

Testimony presented on December 14, 1987, at hearings 13/ of the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation dealt with the impact of State legislation on the UC system. Wayne Vroman of the Urban Institute presented an analysis indicating that reduced benefit availability resulted in part from the financing problems experienced by State UC programs. Vroman cited evidence of a decline from 1978-79 to 1985-86 in an index of benefit availability, namely the ratio of insured to total unemployment (IUR/TUR), a ratio discussed in chapter 4. He reported that the ratio declined by 0.137, on average, in the four most indebted States, but only by .003 percentage points in four States with "large" UC trust funds. 14/ 15/ Vroman attributed a significant part of this greater decline in benefit

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13/ U.S. Congress. House. Committee on Ways and Means. Subcommittee on Public Assistance and Unemployment Compensation. Hearing. Reform of the Unemployment Compensation Program. Serial 100-46. Dec. 14, 1987. p. 136-151.

14/ The four largest UC debtor States were Illinois, Michigan, Ohio, and Pennsylvania. The four with large UC trust funds were California, Florida, Massachusetts, and New York.

15/ For the Nation as a whole the average ratio fell by 18 percent, or by 0.067, from .379 to .312.

availability in the four debtor States to major UC laws passed by the States in 1982 and 1983 to improve the solvency of their programs through WBA freezes and reductions, lengthened waiting periods, reductions in maximum benefit durations, higher requirements for base period earnings, and more restrictive disqualification rules.

In addition, the General Accounting Office (GAO) presented an analysis of the significance of State legislation on benefit availability during the 1980s. According to GAO's testimony, States responded to Federal policy on insolvency during this period by cutting the number of unemployed workers receiving benefits and, hence, lowering benefit costs. Summary examples presented by GAO include:

- o the reduction of maximum benefit duration by six of eight States which previously had durations longer than 26-weeks, the usual maximum;
- o an increase in earnings required to qualify for minimum weekly benefits by 35 States; and,
- o increases by 19 States in the disqualification penalty for quitting work without good cause, increases by 22 States in the penalty for dismissal due to misconduct, and increases in penalties for refusal of suitable work by unemployed claimants in 20 States.

No research to date adequately quantifies the impact of State legislation on the UC programs. Many of the changes made by States in UC laws are small adjustments in a particular year, and the total impact of such changes on a State's program is difficult to assess.

CHAPTER 4: WHY ARE FEWER OF THE UNEMPLOYED RECEIVING UC BENEFITS?*

In the mid-1980s, the proportion of jobless workers with Unemployment Compensation (UC) benefits sank to the lowest levels recorded in the program's history, below one-third. 1/ Out of every 100 unemployed persons, only 32 received UC benefits in 1987. In contrast, the peak jobless beneficiary rate was 75 percent in 1975; before 1975, this rate generally averaged between 45 and 50 percent.

The decline in the proportion of unemployed receiving benefits has aroused concern. Some see it as evidence that the program may not be reaching some jobless persons for whom it is intended.

This chapter discusses reasons why an unemployed worker may be ineligible for benefits, reviews the trend in the jobless beneficiary rate, and discusses the research on the cause of the decline in that rate.

1/ The measure used in this chapter to describe the proportion of the unemployed who receive benefits is the ratio of the number of UC weeks claimed to the number of people unemployed. This measure is called in this chapter the "jobless beneficiary rate." The data for this measure are collected monthly and use UC claims and total unemployment data for the week including the 12th of the month for each month. The annual rates reported in this chapter are averages of the 12 months of data.

The issue of the declining proportion of the unemployed who receive benefits has also been discussed in terms of the gap between the Insured Unemployment Rate (IUR) and the Total Unemployment Rate (TUR), or the ratio of these two measures. Information on the IUR and TUR is presented in chapter 2.

* This chapter was prepared by Gene Falk and Celinda Franco of the Education and Public Welfare Division, Congressional Research Service.

I. AN IMPORTANT DISTINCTION: COVERED EMPLOYMENT VERSUS INSURED UNEMPLOYMENT

In 1987, an estimated 98 million workers were in jobs covered by the UC program. This represents about 86 percent of the labor force, and almost all of wage and salary workers. Self-employed persons are the major part of the labor force outside the UC system, though a few other small categories of workers also are not covered. See chapter 1.

Over time, the proportion of the labor force covered by the program has grown. In 1949, the program covered 52 percent of the labor force; by 1970 this percentage rose to 65 percent. Legislation enacted in 1970 significantly expanded the categories of jobs covered by the program, so that through the 1980s the proportion of the labor force covered by UC grew to over 80 percent (see chapter 2 for more information on trends in the proportion of the labor force covered by UC). Therefore, the drop in the proportion of the unemployed who receive benefits cannot be attributed to a decline in the proportion of the labor force covered by UC. It has expanded.

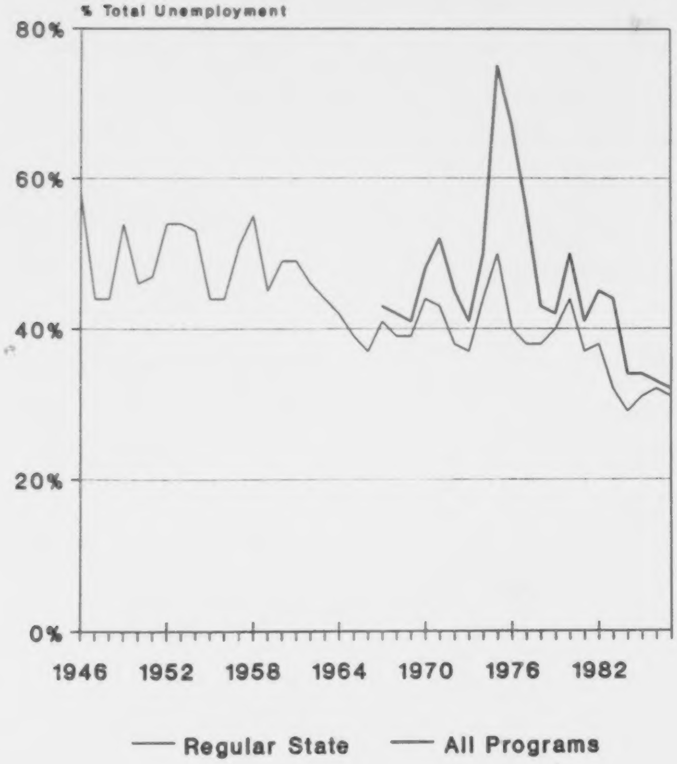
Having worked in a job covered by UC is necessary but not sufficient for receipt of UC upon becoming unemployed. UC basically provides aid to job losers with substantial recent work histories and an unemployed worker can be ineligible for benefits for a wide range of reasons. Depending on the State, workers may be ineligible because they: (1) are new entrants or reentrants to the labor force; (2) voluntarily quit their jobs; (3) were fired for disciplinary reasons; (4) do not meet work experience or monetary eligibility requirements (having enough wages over a specified period to qualify for UC); (5) had pension income of a sufficient amount to disqualify them from receiving benefits, or (6) failed to meet other requirements (enumerated in chapter 1).

II. TREND IN THE PROPORTION OF THE UNEMPLOYED RECEIVING BENEFITS

Over the course of the 1946 to 1987 period, the proportion of the unemployed who received benefits has varied significantly. Variations in the jobless beneficiary rate can be discussed in terms of its cyclical variation, that is, variation attributable to changes in the economy during a business cycle, and its longer term or secular trend. Most of the recent research looks at the secular trend.

Chart 4.1 shows the proportion of unemployed receiving benefits, the jobless beneficiary rate. The bottom (light) line shows this rate for regular State programs for 1947 to 1987; the top (heavy) line shows the rate for all UC programs combined. The largest program other than regular State programs is the Federal-State Extended Benefits (EB) program. Also included in the top line are temporary supplemental benefit programs and UC for unemployed Federal workers and ex-servicemen.

Chart 4.1: Unemployment Compensation
Weeks Claimed As a Percent of total Unemployment
For Regular State Programs (1947-1987)
and All Programs (1967-1987)



Source: Chart prepared by CRS based on data from
U.S. DoL.

The chart shows evidence of both cyclical and secular trends in the jobless beneficiary rate. The proportion of jobless workers who receive UC increases in recessions and falls during periods of economic recovery and growth. In great part this is probably because a higher proportion of the unemployed are job losers during recessions. In periods of growth, the proportion of the unemployed who are new entrants, reentrants, or job-leavers increases (see chapter 2).

Prior to 1980, there was a long-term, gradual secular trend toward a lower jobless beneficiary rate. However, in 1980, the jobless beneficiary rate took a sharp downward turn. This secular drop was interrupted by an upturn during 1981, a recession year when one would expect a cyclical rise in the rate. During the recovery following the recession, however, the downward trend in the jobless beneficiary rate resumed, reaching its lowest level ever in 1987, 32 percent.

The proportion of the unemployed who received benefits during the 1981-1982 recession is often compared with the jobless beneficiary rate during the 1973-1975 recession. During 1975, 75 percent of the unemployed received benefits counting all programs; in 1982, 45 percent of the unemployed received benefits. However, the chart reveals a smaller difference if only benefits from the regular program are examined: in 1975, 50 percent of the unemployed were compensated with regular benefits, compared with 38 percent in 1982. The largest UC program other than regular State programs is the EB program.

As chart 4.1 indicates, the decline in the EB program accounts for a large share of the drop in the jobless beneficiary rate between the 1973-75 and 1981-82 recessions. Significant changes were made in the EB program in 1981 that sharply restricted eligibility (see chapter 6). During the 1980s, both average and median unemployment durations have been higher than in past decades, resulting in higher rates of benefit exhaustions (see chapter 2). With a restricted EB program, fewer regular UC exhaustees received EB payments during the 1980s. The program's eligibility requirements were made more stringent and tighter requirements for activating the program limited the number of States in which EB was available. Thus, it is likely that EB policy modifications contributed to the drop in the jobless beneficiary rate for all UC programs.

Changes in the EB program, however, have not been the focus of research into the causes underlying the drop in the jobless beneficiary rate. The research on the reasons for the decline in the jobless beneficiary rate discussed in section III focuses on the drop in the rate for the regular UC program, rather than for all programs.

III. REASONS FOR THE DECLINE IN THE JOBLESS BENEFICIARY RATE

Recent research has focussed on three broad areas for possible causes of the drop in the jobless beneficiary rate: (1) changes in the composition of the labor-force and the unemployed; (2) changes in Federal policy, such as the taxation of UC, that may have deterred unemployed individuals from filing claims; and (3) changes in State laws, possibly influenced by Federal policy, to tighten eligibility requirements. Research indicates that no one factor is entirely responsible for the decline in the jobless beneficiary rate. However, the decline in the jobless beneficiary rate could stem from either (1) fewer of the unemployed actually applying for benefits or (2) more UC applicants being denied benefits. The research indicates that the first of these factors--fewer of the unemployed applying for UC--accounts for much of the drop in the jobless beneficiary rate.

This section first discusses the possible causes of decline in the jobless beneficiary rate. These causes are drawn from three key studies: (1) Gary Burtless' and Daniel H. Saks' The Decline in Insured Unemployment During the 1980s, which expanded on Burtless' 1983 Brookings Review article on the issue; (2) a study conducted for the Department of Labor by Mathematica Policy Research (MPR), An Examination of Declining UI Claims in the 1980s; and (3) testimony provided by Wayne Vroman of the Urban Institute to the House Ways and Means Committee in December 1987. This section concludes with an examination of the empirical evidence concerning the decline in the jobless beneficiary rate.

A. Possible Causes of the Declining Proportion of Unemployed Receiving Unemployment Compensation

Both trends in the composition of the labor force and policy decisions made at the Federal and State levels have been cited as possible causes of the decline in the jobless beneficiary rate. Long-term trends in labor force composition and the composition of the unemployed were likely contributors to the trends in the jobless beneficiary rate through the 1960s and 1970s. However, empirical research indicates that some other changes must have taken place in the 1980s to account for the acceleration in the ratio's decline.

1. Composition of the Labor Force

a. Demographic characteristics of the labor force. Prime-age males 24 years and older are historically the majority of UC claimants because they tend to accumulate more UC benefit eligibility through longer or steadier work experience. Women and younger workers have lower UC eligibility rates associated with their greater likelihood of being new entrants and reentrants to the workforce. These latter groups' labor force participation increased during the 1960s, 1970s, and 1980s. This shift in the composition of the workforce, from prime-age men to workers with historically lower eligibility rates, could have contributed to a decline in the jobless beneficiary rate. However, Burtless concluded that this long-term trend is unlikely to have caused the accelerated drop in the ratio in the 1980s.

b. Economic characteristics of the labor force. In addition to changes in workforce demographics, shifts in the industrial structure of the economy could also have affected the jobless beneficiary rate. The MPR study found empirical evidence that the decline of manufacturing workers among the unemployed helped reduce the jobless beneficiary rate. Whether there are certain characteristics of service-sector employees compared with manufacturing workers that would cause such a difference was not discussed. For example, service-sector workers may be, on average, lower paid, more likely to work part-time, and in jobs with faster turnover than are manufacturing workers. MPR hypothesized that manufacturing workers also have better information about UC programs than do workers in the service-producing sector.

c. Geographic shifts in the labor force. MPR noted that the geographic shift in the labor force from the Northeast and Midwest to the South and West may have contributed to the decline in the jobless beneficiary rate. This shift could account for some of the decline if States in the South and West had more stringent eligibility requirements or stricter enforcement of these requirements.

2. More Frequent Unemployment

Burtless also contended that increases in the proportion of new claimants who experienced multiple spells of unemployment within a year could contribute to the decline in the jobless beneficiary rate. People who experience multiple spells of unemployment during a benefit year are likely to be eligible for benefits for a shorter duration during second or subsequent spells. The "back-to-back" recessions of 1980 and 1981-1982 could have caused workers to experience more frequent unemployment during these years and thus have longer periods of uncompensated unemployment.

3. Changes in Federal Policy

Prior to 1979, UC benefits were exempt from Federal income and payroll taxes. The partial income taxation of UC that commenced in 1979, the broadening of income taxation of benefits in 1982, and the full income taxation of benefits that took effect in 1987, reduced "net" UC wage-replacement rates from pre-1978 levels (see chapter 5 for a discussion of wage-replacement rates).

Burtless, MPR, and Vroman all mentioned the reduction in net UC replacement rates as a possible deterrent to the filing of benefit claims by unemployed workers. In theory, unemployed workers should file claims as long as the marginal benefit of filing (expected net benefits) exceeds the marginal cost of applying for benefits. The costs of applying for benefits include: (1) the value of time lost applying for benefits (e.g., lost job search or leisure time); (2) the cost of transportation to the employment office; (3) the "hassle" factor of filling out forms and waiting in line; and (4) subjection to the work search requirements of the UC program. If the taxation of benefits reduced net UC benefits to levels at which some unemployed workers found that costs exceeded net benefits, it could account for some part of the decline in the jobless beneficiary rate.

The pension offset provision may have led to higher rates of income disqualifications, which may have served to reduce the jobless beneficiary rate. Since the late 1970s, Federal law has required States to reduce UC awards for beneficiaries of social security or other Federal pensions and private pensions. Private pensions, in some cases, are payable as early as age

55. Thus, one would expect the proportion of older workers receiving UC to have declined.

Vroman pointed to Federal legislative action charging interest on loans to State trust fund accounts as a possible factor in the decline of "benefit availability," as measured by the jobless beneficiary rate. The requirement that States pay interest on borrowed Federal funds could have caused a "tightening" of State programs, discussed below.

4. State Policy Changes

State policy changes, initiated in response to new Federal policies or to other factors such as low trust fund reserves, are frequently cited as contributing causes in the decline of the jobless beneficiary rate. These changes include:

- Increased monetary eligibility requirements in some States;
- Reductions in the maximum duration of benefit receipt; and
- Tightening of job search requirements.

The General Accounting Office (GAO) and Vroman have both pointed to Federal trust fund financing policy as a possible cause for State benefit cutbacks. Vroman notes that States entered the decade with relatively low trust fund balances, and many States were forced to "borrow" spending authority from Federal funds. The Omnibus Budget Reconciliation Act of 1981 provided that, effective April 1982, States would be charged interest on these loans. This increased cost of borrowing could have forced States to tighten their programs, particularly during the period of high unemployment in 1982 and 1983. GAO stated that "1980's federal loan policies also contributed to the recipiency decline because, to improve solvency, many States cut benefit cost by reducing claimant eligibility." 2/ GAO noted that "between January 1981 and January 1987, 44 programs, 30 of which had borrowed Federal funds at least once, either reduced maximum benefit duration, tightened eligibility requirements, or took other actions which reduced the proportion of the unemployed receiving benefits." 3/

B. Empirical Evidence

Research into the causes of the decline in the jobless beneficiary rate in the 1980s is limited by both data and statistical considerations. There is no consistent, representative data set that has information at the individual worker level on both employment status and receipt of unemployment on a weekly or monthly basis for enough years to permit analysis of this trend. 4/ The monthly Current Population Survey (CPS), which is used to produce monthly employment and unemployment statistics, does not have information on whether an unemployed worker received UC. The annual March income supplement to the CPS includes information on each person's work history and sources of income for the past year, including UC. However, information is presented for the entire year and could include data on several "spells" of unemployment, only some of which may have been compensated.

2/ U.S. General Accounting Office. Unemployment Insurance: Issues Relating to Reserve Adequacy and Trust Solvency, statement of William J. Gainer, Associate Director, Human Resources Division, before the Subcommittee on Employment and Housing, Committee on Government Operations, House of Representatives, July 7, 1988. Summary (no page number).

3/ Ibid., p. 7.

4/ The Census Bureau's Survey of Income and Program Participation (SIPP) provides information about employment and UC receipt on a monthly basis. This survey could help in identifying the jobless who do, and do not, receive UC. However, the SIPP could not help identify the causes of the decline in the beneficiary jobless rate from the mid-1970s since the SIPP information was first collected in 1984.

An evaluation of the impact of policy changes on the jobless beneficiary rate is also limited by the ability of statistical models to disentangle the effects of several policy changes that occur simultaneously. Many of the policy changes that have been identified as possibly affecting the jobless beneficiary rate occurred in the early 1980s, the same time when the trend in the jobless beneficiary rate declined dramatically. Thus, statistical models have a difficult time pinpointing the policy changes that could have played an important role in the declining jobless beneficiary rate.

1. Burtless Study

Gary Burtless (with Daniel Saks) completed a study in March 1984 on the drop in the jobless beneficiary rate. His measure of the proportion of the jobless receiving UC was different from the jobless beneficiary ratio described in this chapter; Burtless used the ratio of the insured unemployment rate (IUR) to the total unemployment rate (TUR). He sought to explain variations in the IUR/TUR ratio over the 1951 to 1982 period.

Burtless' analysis of trends in the IUR/TUR ratio contained three major findings. First, he found that variations in the IUR/TUR ratio prior to 1979 can be statistically explained by variations in the job-losers' rate. The trend in the IUR prior to 1979 generally followed the trend in the job losers' rate. Burtless' second finding was that this relationship became far weaker in the 1980s; factors other than variations in the job losers' rate appeared to be causing a decline in the IUR/TUR ratio. 5/ Third, Burtless found that there was a drop in the number of new UC applicants relative to job losers during the 1980-1982 period.

In addition to the analysis of the trend in the IUR/TUR ratio, Burtless examined differences in the characteristics of the unemployed and UC recipients between the 1975 and 1982 recessions by using the annual March supplements to the CPS. 6/ Burtless found that most of the differences in demographic characteristics between the 2 years should have resulted in an increase, rather than the observed decrease, in the proportion of unemployed receiving UC. For example, the proportion of the unemployed under age 25 was lower in 1982 than in 1976. Therefore, according to Burtless, changes in demographics over the period could not account for the decline in the jobless beneficiary rate. Changes in the industrial structure, however, could account for some of the decline in the rate. Burtless found more service-sector workers and fewer workers from manufacturing industries among the unemployed in 1982 compared with 1976.

Burtless contended that changes in the composition of the unemployed could not account for the decline in the jobless beneficiary rate in the 1980s. Therefore, he looked to changes in Federal and State policies as possible

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5/ Technically, these are the results of a time-series regression analysis. Burtless' statistical model had the IUR explained as a function of the job losers' rate. When he examined the period 1951 to 1979, the model explained variations in the IUR very well. When he added the year 1980 to 1982, the job losers' rate predicted the IUR less satisfactorily, with significant "negative residuals" for years after 1980. He adjusted his model to add a "dummy variable," a variable with a value of one for quarters after 1980, zero for quarters prior to 1980. The dummy variable was statistically significant, indicating a change in the IUR/job-losers relationship in the 1980s.

6/ Burtless' CPS findings are, as discussed, based on data collected on workers' employment and unemployment experience for the entire past year. It does not contain information on UC receipt within single spells of unemployment.

causes for this trend. However, no empirical tests of the effects of policy changes were included in his study.

2. Mathematica Policy Research Study

Mathematica Policy Research (MPR), under contract to the DoL, released in May 1988 an empirical study on the decline in the proportion of the unemployed receiving benefits. MPR concluded that there is no one cause for the decline in the proportion of unemployed receiving benefits. Rather, they found statistical evidence that both changes in the composition of the unemployed and changes in Federal and State policies contributed to this decline.

MPR sought to explain the decline in the ratio of UC (ongoing) claims to the number of unemployed, rather than in the IUR/TUR ratio. MPR called this measure the "claims" ratio. It is a measure similar to the jobless beneficiary rate shown in part II of this chapter. Using this measure also avoids the problem that the IUR and TUR are based on different population groups--the IUR is "insured" unemployed divided by total covered employment, while the TUR is all unemployed divided by the total labor force.

MPR's empirical analysis is divided into three parts: (1) an examination of the effect of changes in the composition of the unemployed on trends in the claims ratio for the period 1948 to 1986; (2) an examination of the effects of Federal and State policy changes over from 1971 to 1986 on State claims ratios; and (3) an examination of the characteristics of unemployed workers over 1980-1982 using information from the Panel Study on Income Dynamics (PSID).

a. Composition of the unemployed. The first part of the empirical analysis is similar to that of Burtless. MPR analyzed the relationship between the total unemployment rate and the claims ratio; they, like Burtless, found a change in the statistical relationship between total unemployment and the claims ratio in the 1980s.

In examining the effects of the characteristics of the unemployed to the claims ratio, MPR found statistically significant relationships between the claims ratio and the proportion of the unemployed who were: (1) unemployed 27 weeks or more; (2) from manufacturing industries; and (3) from construction jobs. In terms of the magnitude of these relationships, MPR stressed the importance of the decline in the proportion of the unemployed from manufacturing industries, stating that the decline in this proportion accounted for between 4 and 18 percent of the drop in the claims ratio during the 1980s. Some of the variation in the claims ratio, however, remained unexplained when certain demographic and economic characteristics of the unemployed were considered. Another factor MPR stressed as contributing to the decline in the claims ratio is the shift in the composition of the unemployed among regions of the country. MPR stated such geographic shifts accounted for about 16 percent of the decline in the UC claims ratio.

b. State program characteristics. In the second part of their analysis, MPR examined the impact of changes in Federal and State policies on the trend in the UC claims ratio. 7/ The 11 largest States were used in this analysis. MPR found statistically significant relationships between the UC claims ratio and almost all of the program characteristic variables: wage

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7/ MPR used the "pooled cross-sectional and time-series" method in examining the effects of Federal and State program changes on the UC claims ratio. This method differs from traditional time-series analysis. In traditional time-series analysis, changes in explanatory and dependent variables are analyzed over time. In traditional cross-sectional analysis, dependent variables are explained by a series of independent variables at a point in time. The "pooled cross sectional and time-series" method combines the two approaches, combining cross sections of dependent and independent variables from several points in time (in this case each quarter from 1971, first quarter, to 1986, fourth quarter) into a single "cross-sectional" data set.

replacement rate; potential duration of benefits; monetary eligibility requirements; the denial for voluntary leave, misconduct, work-test, or disqualifying income; and whether the States provided extended benefits. In terms of the relative magnitudes of these variables on the decline in the claims ratio in the 1980s, MPR found that increased base period earnings requirements accounted for between 8 to 15 percent, increases in income denials accounted for about 10 percent, and changes in other nonmonetary eligibility requirements accounted for between 3 and 11 percent of the decline in the claims ratio.

The statistical model that included State program characteristics still left unexplained some of the decline in the UC claims ratio. Many State program characteristics are difficult to measure, and some characteristics that might be relevant to the trend in the UC claims ratio could have been excluded from the model. For example, the work-test denial rate is a proxy for, but does not measure directly, the degree of enforcement of the job search requirements.

c. Characteristics of the unemployed. The third part of the analysis used PSID data on the 1980-1982 work and UC experience of household heads who had a spell of unemployment in 1980 or 1982. PSID data comparing UC receipt in 1980 and 1982 indicate that in 1982 a higher proportion of unemployed household heads collected UC at some time during their spell of unemployment. This finding is counter to trends in the jobless beneficiary rate. Some of this discrepancy may be explained if, within the 1982 spells, durations of UC receipt were shorter and/or durations of the spells were longer. However, the study did not examine this possibility. The authors also point to the limitations of the data, which dealt only with household heads and may have been unrepresentative of the general population.

For those with spells of unemployment who did not receive UC, PSID data include the respondent's reason for nonreceipt of benefits. MPR tabulations of this information show that 19 percent of those who did not receive benefits applied for them; the remaining 81 percent did not even file for benefits. Among the reasons for not filing were: administrative access problems (10.2 percent of nonfilers cited this reason); "don't like it" (16.6 percent of nonfilers); and expected to have a job shortly (22.3 percent of nonfilers).

MPR also examined the PSID data for demographic and economic factors determining whether or not unemployed household heads received UC. They found statistically significant relationships between receipt of UC and several factors: (1) a worker's age, with both younger (under 25) and older (over 65) workers less likely to receive benefits; (2) education, those with higher education being more likely to receive benefits; (3) higher earnings, with workers earning more than $25,000 a year more likely to receive benefits; (4) union membership, union members being more likely to receive benefits than others; (5) occupation, with blue collar workers more likely to receive benefits; and (6) type of industry, with manufacturing and construction workers being more likely to receive benefits than others.

IV. CONCLUSIONS

The proportion of the unemployed receiving UC declined to all-time low levels in the 1980s. Empirical research indicates that no single factor caused the decline in the jobless beneficiary rate. Rather, there is empirical evidence that this decline is due to a combination of:

- o Federal and State policy changes, most notably the Federal taxation of benefits and State attempts to tighten up their programs;
- o The decline in the proportion of the unemployed from manufacturing industries;
- o Changes in the composition of the workforce, such as the increased share of the workforce represented by young workers and women; and
- o A shift in employment and hence unemployment among regions.

Data and statistical limitations have contributed to the inconclusive picture of the causes of the decline in the jobless beneficiary rate. Given these limitations, a shift in the focus of research into this issue may be helpful. New data sources, such as the Census Bureau's Survey of Income and Program Participation (SIPP), provide the necessary information to identify, on a monthly basis, the unemployed and those receiving UC. Using this data source, it would be possible to identify the unemployed who do not receive UC and examine their economic and demographic characteristics. Such research might give policymakers a better sense of the impact of a low jobless beneficiary rate on the economic well-being of the unemployed and their families.

CHAPTER 5. BENEFIT ADEQUACY: ARE WAGE REPLACEMENT STANDARDS BEING MET?*

I. INTRODUCTION

The Unemployment Compensation (UC) program has two main objectives: (1) to replace a portion of the earnings of workers who lose their jobs temporarily and thus help them maintain some degree of income adequacy; and (2) to serve as a countercyclical stimulus during downturns in the business cycle by maintaining the purchasing ability of workers.

The purpose of this chapter is to assess the adequacy of State benefits currently paid to unemployed workers. (The program's countercyclical role is discussed in chapter 8.) This chapter reaches two important conclusions: (1) Benefit adequacy is affected by the definition and standard of adequacy used; (2) adequate wage replacement is different for unemployed workers who are the sole family earner (the typical case in the 1930s when the program was initiated) and for married couples in which both spouses work (as is common today). The chapter also addresses questions about the program's impact on job search and work effort and about the appropriateness of continuing to treat UC as an earned benefit that is not affected by the recipient's other income or resources.

The first section of this chapter provides a brief background on program benefit levels and the measurement of "wage replacement" and "wage maintenance" rates. 1/ Second is a discussion of the adequacy of benefits now paid in each State according to different measures of adequacy. The final sections review the issues of dependents' allowances and the labor supply effects of the UC program.

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* This chapter was prepared by Carolyn Merck of the Education and Public Welfare Division, Congressional Research Service.

A. Background

When the UC program was being drafted, there was widespread agreement that benefits should be a function of pre-unemployment wages rather than a flat rate for everyone, and that an appropriate weekly wage replacement rate was about 50 percent. 2/ According to Haber and Murray's history of the UC program, there is no record of why or how 50 percent became the generally accepted benefit rate. 3/

In 1934 the Advisory Council to the Committee on Economic Security, which was established by President Franklin Roosevelt to design the original legislation, recommended that no State unemployment insurance law be approved unless it prescribed a rate of benefits of "at least 50 percent of the average weekly earnings." It said State law also should provide a minimum rate of benefits "sufficient to enable unemployed workers to maintain themselves and

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1/ A replacement rate is generally defined as the UC program monetary benefit received during a spell of unemployment divided by the worker's usual pre-unemployment wage during an equivalent time period. This report includes an analysis of weekly wage replacement rates as well as an analysis of benefit adequacy over a year in which the worker has some earnings and a spell of unemployment. An annual measure of the effects of a spell of unemployment was constructed for this analysis. It is termed the "annual wage maintenance rate." The numerator of this measure consists of the UC benefit paid during the spell of unemployment plus earnings during other weeks of the year, and the denominator is usual annual wages in a year in which the worker experiences no unemployment.

2/ Haber, William, and Merrill G. Murray. Unemployment Insurance in the American Economy. Homewood, Ill., Richard D. Irwin, Inc., 1966. p. 173.

3/ Ibid.

their families without necessity of resort to private or public charity." 4/ In its report to the President on January 15, 1935, the Committee made no attempt either to mandate a national benefit standard or to prescribe in the Federal law how States should establish their payment rates. However, the Committee's report included suggestions about how State programs should be designed and provided the States with model UC laws. These model program designs included a 50 percent replacement rate but did not clearly define the factors that should be used to arrive at the 50 percent measure. Most States accepted the suggested standard. 5/

When the Social Security Act was enacted, most adult workers were married men. 6/ The unemployed workers for whom benefits were originally designed were primarily husbands who were the sole wage earners in the family, 7/ and therefore the question of if or how to take into account the availability of earnings of a second family worker was not addressed.

Over the years, issues of benefit adequacy and appropriate replacement rates have been addressed mainly in the context of proposals to establish a federally mandated minimum benefit rate. President Truman proposed a minimum benefit standard in 1950, but it was opposed by employer groups. In 1954,

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4/ U.S. Congress. Senate. Committee on Finance. Economic Security Act. Hearings, revised. Jan. 22-Feb. 20, 1935. p. 230. (Hereafter cited as Senate Finance Committee, Economic Security Act, hearings)

5/ Haber and Murray, p. 175.

6/ In 1930, 80 percent of adults in the labor force were male; in 1940, 76 percent. See U.S. Library of Congress. Congressional Research Service. Unemployment During the Great Depression and the Current Recession. Report No. 83-15 E, by Linda LeGrande. Washington, 1983. p. 4. In 1930, 60 percent of the male population aged 15 and over was married, and in 1940, 61 percent. See U.S. Dept. of Commerce. Bureau of the Census. Statistical Abstract of the United States, 1943. p. 40.

7/ In 1940, only 9 percent of the labor force was in two-earner families and three-fourths of married-couple families reported the husband as sole breadwinner. CRS Report No. 83-15 E. p. 30.

President Eisenhower recommended that States raise their dollar maximums so that "most" claimants would receive benefits equal to at least half their earnings. The proposed requirement that benefits equal 50 percent of wages for "most" claimants recognized that high-wage workers generally do not need to have 50 percent of their pre-unemployment wage replaced, and implied that States should set benefits at 50 percent as a base amount but that the formulas could produce lower replacement rates for workers at higher wage levels. In 1959, the House Ways and Means Committee held hearings on the issue of minimum standards. Legislation proposed in that year would have established Federal benefit standards, but failed to pass the House of Representatives by a single vote.

During the Kennedy and Johnson Administrations legislation was proposed to require States to pay at least 50 percent of a worker's average weekly earnings and to increase State maximum benefits to 66.6 percent by July 1971. The provision passed the Senate in 1966 but failed in the House and was deleted in conference. In April 1973, President Nixon recommended that Congress require States to provide each jobless worker a benefit equal to at least 50 percent of his average weekly wage, up to the State maximum equal to at least two-thirds of the average wage of covered workers in the State. He said the goal was to provide "at least four-fifths of the Nation's insured workforce half-pay or better when unemployed." 8/ Again, this proposal would have allowed States to implement replacement rate formulas that declined at higher wage levels, but the formulas were to be constructed so that no more that 20 percent of claimants (presumably the portion that would be "high wage" workers) would

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8/ President Nixon said that more than two-fifths of all workers then covered by the unemployment compensation system "find their benefits limited by State ceilings at a level below the half-pay ostensibly guaranteed them." Message from the President to Congress. Job Security Assistance Act of 1973. Apr. 12, 1973.

receive less than 50 percent wage replacement. However, there was no comprehensive review of program benefits at that time, and there was no attempt to define the factors used to compute such a standard.

Many States still use a 50 percent wage replacement concept in setting their payment levels, and most set their maximum benefit at about 50 to 70 percent of the average gross weekly wage in the State. Placing a ceiling on benefits at 50 percent of the average wage in the State pushes replacement rates down for workers with above-average wages. Some State UC laws include provisions to increase benefit maximums regularly, but many have no regular or automatic mechanism for raising the maximums. When maximums are not increased as wages rise, benefits to average-wage workers as well as high-wage workers can be subject to limitation.

In general, opposition to federally mandated payment standards comes from those advocating States' rights as well as from employers' groups who are concerned about the potentially high costs of such standards. In the late 1970s, labor unions advocated mandated minimum benefit levels and increased benefit maximums. They argued that benefits provided inadequate income for low-wage workers, that benefit ceilings made it difficult for high-wage workers to maintain living standards, and that the large intra-State variation in benefit levels caused inequities in benefits for similar workers.

B. The Importance Of Replacement Rates

Benefit levels and replacement rates are an ongoing issue in the UC program because of their potential effects on work incentives and disincentives and on the public's perception of the fairness of, and thus their support for, the program. One reason replacement rates are important is that, if set too high, they may have a strong work disincentive effect by narrowing the income gap between working and not working. In theory, the lower the cost to a worker of being unemployed, the less the incentive for the unemployed worker to seek and accept reemployment. A claimant usually faces an ongoing decision to remain unemployed or return to work at some prospective wage rate. In theory, if the wage offer is too low, relative to UC benefits, he refuses a job; if high enough, he accepts it. Existence of UC raises the "reservation wage," the lowest wage he will accept, above what it otherwise would be. The jobless worker's decision is made by comparing the financial benefits of returning to work with the benefits available while not working, including some valuation of leisure time. The more nearly equal the returns from work and the benefits for unemployment, the less the incentive to return to work because much of what would be gained from going back to work would be lost in foregone UC benefits. UC benefits are intended to reduce the cost of unemployment by replacing a portion of the worker's wages. Thus, the program can be expected to have some work disincentive effect. Economists sometimes suggest ways to lessen these effects, but there do not seem to be any proposals to abolish the program because of them. 9/

To the extent that an objective of the UC program is to decrease the cost to workers of unemployment, society has acknowledged that it is willing to create some work disincentives within the system because of longer-run benefits to the worker and society. Research shows that there may be some short-run work disincentive effects of the UC system. However, some argue that provision of income support during a spell of unemployment may lead to increased job stability, higher labor productivity, and lower rates of unemployment over the

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9/ U.S. Library of Congress. Congressional Research Service. Work Disincentives in the Unemployment Insurance (UI) System, by Richard A. Hobbie [in] Work Disincentives and Income Maintenance Programs. Report No. 80-111 EPW, P. Royal Shipp, ed., June 12, 1980. Washington, 1980. p. 105-143.

long run by allowing workers to hold out for jobs better tailored to their needs and qualifications. UC also permits employers to retain access to a skilled workforce during layoffs and avoid the costs of training new employees when business picks up again. 10/ Moreover, since UC benefits pay less than a worker's usual job, replacing only a portion of wages, there usually remains a financial incentive to seek a job. (See Section IV, Benefit Adequacy and Work Incentives.)

C. Measuring Adequacy

As noted by Vroman, the evaluation of benefit adequacy is strongly influenced by the precise factors used in the adequacy yardstick. 11/ Thus, any analysis of benefit adequacy must begin with a clearly defined measure of adequacy. Two concepts are commonly used to evaluate benefit adequacy: (1) the extent to which benefits replace the portion of income spent on necessities; and (2) the extent to which benefits replace pre-unemployment wages. The first measure is generally considered an absolute measure because, at least theoretically, basic needs do not vary substantially among similar types of families. The second measure, wage replacement, is a relative measure because benefits are measured in terms of pre-unemployment wages. To evaluate benefit adequacy, this report will compare State wage replacement rates and wage maintenance to both of these measures.

10/ Munts, Raymond, and Irwin Garfinkel. The Work Disincentive Effects of Unemployment Insurance. Kalamazoo, Mich., W.E. Upjohn Institute for Employment Research, Sept. 1974. p. 2.

11/ Vroman, Wayne. State Replacement Rates in 1980. Unemployment Compensation: Studies and Research, v. 1, July 1980. Washington, National Commission on Unemployment Compensation, 1980. p. 165.

1. Absolute Measures

Absolute measures of benefit adequacy presume that families need a certain minimum income to pay for basic necessities. The expenditures included in this kind of measure are variously characterized as "essential expenses," "nondeferrable expenses," or "recurring expenses." Many consider benefits adequate only if they cover 100 percent of such expenses. Food, clothing, and shelter are generally accepted as includible items, as are health insurance, lump-sum property tax payments, payments regularly made to persons outside the family, and previously incurred payment obligations for credit purchases. The measure, of course, varies depending on which expenditures are included. 12/

Little empirical research has been done recently on benefit adequacy from the standpoint of covering essential expenditures. In 1979, Vickery, using data from the 1972-73 Consumer Expenditure Survey (CEX), estimated the proportion of a household's normal gross annual income that was used to meet nondeferrable expenditures, defined as those to which the family had already committed itself or which were for necessities. 13/ These included rent or mortgage payments, car and other installment payments, medical expenses, life insurance, food, fuel and utilities, telephone, dry cleaning and laundry, clothing repairs, transportation, health expenses, reading and education, and other insurance premiums. Expenditures for alcohol and tobacco, domestic services, household furnishings and equipment, clothing, personal care,

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12/ For a more detailed discussion of measures of adequacy based on household expenditures, see U.S. Dept. of Labor. Employment and Training Administration. Job Loss, Family Living Standards and the Adequacy of Weekly Unemployment Benefits. Washington, 1977.

13/ Vickery, Clair. Unemployment Insurance: A Positive Reappraisal. Industrial Relations, v. 18, no. 1 (winter 1979). p. 1-17. [Note: Ms. Vickery is now Clair Brown, Associate Professor of Economics, University of California, Berkeley.]

recreation, retirement premiums, gifts and contributions, and miscellaneous expenditures were excluded. It was assumed that the family can postpone the purchase of durable goods, reduce its expenditures for recreation, and reduce somewhat its expenditures for food.

Vickery estimated the portion of pre-tax family income required for nondeferrable expenses for hypothetical families at three income levels in 1972-73 dollars: lower-middle ($6,000-$10,999), middle ($11,000-$16,999), and upper-middle ($17,000-$35,000). 14/ The portions of gross annual income required for nondeferrable expenditures for four-person families at these income levels were 65 percent, 54 percent, and 45 percent, respectively. These declining ratios reflect the declining shares of income needed to cover necessities as income rises. They could be expected to be higher at income levels below the lower-middle range, and decline further at income levels above the upper-middle level specified in this research. Although Vickery estimated the nondeferrable expenditure rates separately for single-earner and two-earner families, the rates were very similar when total family income was held constant. However, in multiple-earner families, the adequacy of income to meet nondeferrable expenses depends on whether it is a high-earner or low-earner family member who is unemployed. For this analysis, only single-earner families are examined.

Vickery's needs-based replacement rate criteria are the best available data for measuring adequacy in an absolute sense, but two important caveats should be pointed out. First, the data used in this analysis are now dated, but the findings are probably still reasonable, with any differences that might have developed in the intervening years attributable to different rates of

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14/ Based on average wage growth as reported in the 1988 Social Security Trustees' report, in 1988 dollars these ranges are: lower-middle, $14,760-$27,058; middle, $27,060-$41,817; upper-middle, $41,820-$86,100.

inflation in the cost of the items categorized as nondeferrable and deferrable. Second, at the time of Vickery's analysis, UC benefits were not taxable. Her replacement ratios were calculated using pre-tax benefits and income. However, if these ratios were calculated using after-tax benefits and income, the required replacement rates would be higher because Federal Insurance Contributions Act (FICA) (social security) taxes apply to earnings (the denominator) but not to UC benefits (the numerator). Thus, application of these needs-based replacement rates to after-tax benefits and earnings data would overstate the adequacy of the benefits. [15]

Another needs-based approach to measuring adequacy is the computation of income/poverty ratios. If a family's income falls below the poverty line in spite of receiving UC during a spell of unemployment, the benefits could be judged to be inadequate. However, this measure presents some problems. First, there is no obvious point at which benefits become "adequate" compared with a poverty income. Is an income barely above poverty or at 125 percent of poverty adequate? Second, the poverty level is an annual income concept. Although the annual poverty level can simply be divided into monthly or weekly portions, the resulting amount does not comport with the original construction and meaning of poverty. According to official poverty measures, a family whose income for a few weeks or even a few months is below a prorated share of a poverty income, but which, over a year, exceeds the poverty threshold, is not counted as poor. For those who are unemployed for long periods of time, poverty might be an appropriate standard against which to evaluate benefit adequacy, but its meaning is less useful for the majority, whose spells of unemployment are shorter than 4 months.

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[15] For example, Vickery's data indicate that an adequate income replacement rate for an average wage worker is 54 percent of pre-tax earnings. If after-tax earnings were considered, somewhat more than 54 percent would be needed to meet the same adequacy criteria.

For this report's analysis of benefit adequacy, Vickery's standards are used as the absolute, or "needs-based" measure. However, it should be emphasized that this is just one among several such sets of standards that could be used. This should not be construed as the definitive measure of need, but merely as an approximate benchmark for comparison of benefits.

2. Relative Measures

Benefit adequacy in the UC program is most commonly measured as a portion of lost wages, a relative measure that does not concern itself with covering essential expenditures. There are certain advantages to evaluating benefit adequacy in terms of lost wages rather than need, including avoidance of the difficult issue of what constitutes a necessity, perceived intra-State geographic cost-of-living and prevailing wage variations, and the need for current data on costs of necessities. In addition, the wage replacement measure implicitly takes individual circumstances into account, is simple to use, and automatically reflects wage growth over time.

The following ratio represents this measure of benefit adequacy:

$$\frac{\text{UC benefits}}{\text{pre-unemployment wages}}$$

Although this ratio appears to be a simple measure, there are many alternative definitions for both the numerator and the denominator. Thus, when using the wage replacement concept to evaluate benefit adequacy, the definition of the factors in the ratio can substantially affect the resulting measure. First, a choice must be made of the "accounting period," the period of time over which benefits and wages are measured. Second, benefits and wages may be considered in pre-tax terms, or may be defined as net of payroll tax withholding, and perhaps net of other work-related expenses. Third, the definition of wages may include the value of noncash employer-provided compensation. Fourth, adequacy can be evaluated in the context of total family wages or just those of the unemployed worker. A discussion of each of these factors follows.

a. The accounting period. UC replacement rates are frequently measured on a weekly basis because benefit rates are weekly rates. However, evaluating benefit adequacy on a weekly basis alone gives a limited picture of the extent of the hardship a spell of unemployment may create for a worker or a family. For example, the weekly replacement rate for a high-wage worker with a short spell of unemployment might be very low, but if the worker regained his high-wage job for most of the year, the short-term income loss might seem trivial over the longer period.

One alternative to evaluating benefit adequacy on a weekly basis is to compare (a) the annual income from UC benefits plus earnings of a worker who has a spell of unemployment with (b) the worker's earnings in a year during which there is no unemployment. Such a measure is not a "wage replacement rate." In this report we term it the annual "wage maintenance rate" and calculate it as the percent of annual wages maintained during a year in which there is a spell of unemployment. This measure provides a different perspective on how much hardship an unemployed worker's family has actually experienced. Annual income is a widely used measure. Income is usually reported and taxed on an annual basis. The Census Bureau determines a family's poverty status, a frequently used benchmark of income adequacy, on the basis of annual money income. A drawback to using an annual accounting period, even for workers who have an average-length spell of unemployment (about 13-15 weeks when the economy is not in severe recession), is that the availability of earnings in the other 38 or so weeks may obscure the extent of short-term hardship that could occur because of an interrupted cash flow.

Table 5.1, below, illustrates the percent of annual wages maintained for workers with differing spells of unemployment, assuming the worker is eligible for UC benefits equal to 50 percent of gross pre-unemployment wages.

TABLE 5.1. Percent of Annual Wages Maintained During a Year in Which There Is a Spell of Unemployment
(UC benefits = 50 percent of gross wages)

UC and wages	Percent of annual wages maintained
13 weeks of UC; 39 weeks of earnings	87.5
26 weeks of UC; 26 weeks of earnings	75.0
26 weeks of UC; 13 weeks unemployed, no UC payable; 13 weeks of earnings	50.0
26 weeks of UC; 26 weeks unemployed, no UC payable	25.0

b. Before-tax versus after-tax income. For more than 40 years, UC benefits were tax-free, regardless of the individual's other income or total income in the tax year. Thus, before-tax and after-tax benefit amounts were identical. Effective in 1979, a portion of the benefits was made taxable under Federal income tax laws if the unemployed individual had adjusted gross income, including UC, above a specified level. Subsequently, the Tax Reform Act of

1986 (P.L. 99-514, effective in 1987) included all UC benefits in taxable income. FICA taxes do not apply to UC benefits.

Whether before-tax or after-tax UC payments are used as the numerator of the replacement rate affects the result and depends to some extent on what is under study. All benefits must be included in taxable income, and thus an evaluation of the disposable income of the worker or family should reflect the ultimate taxability of benefits. However, a case can be made for using before-tax benefits in the numerator when measuring short-term adequacy, even if after-tax wages are used in the denominator, because no tax withholding is applied to the weekly UC check. Thus, when benefits are analyzed as short-term earnings replacement aimed at minimizing the hardships of an interrupted cash flow, before-tax benefits might be more appropriate than after-tax benefits since they will not be taxed until the individual files a tax return. The claimant may well be reemployed by that time. Furthermore, the actual tax rate that will be applicable will depend on total income from all taxable sources received throughout the year.

The problems in defining the denominator are more complex. First, use of before-tax pre-unemployment weekly cash wages risks substantially understating the replacement rate and perceptions of benefit adequacy. Most people pay for their essential, nondeferrable living expenses out of their after-tax, take-home pay. Thus, their standard of living is based on their after-tax earnings, and it seems appropriate to base a replacement rate on after-tax earnings. However, use of after-tax earnings can result in some anomalies in replacement rates for workers with dependents compared to those without dependents. Workers with dependents have a smaller tax liability than those without dependents because the tax system allows for the greater financial requirements of a larger household through provision of exemptions for dependents in the tax filer's household. Therefore, the take-home pay of a worker with dependents is greater than that of a worker without dependents, even though their gross earnings may be the same. Because of the different number of people supported by the two workers, they may be able to maintain comparable living standards with different net earnings. In most States, UC benefits are the same for workers with and without dependents when they have the same pre-unemployment wages, but the worker with dependents has a lower replacement rate than the other worker because his or her pre-unemployment take-home pay is higher. Thus, the worker without dependents would be better able to maintain his pre-unemployment living standard than the unemployed worker with dependents, a situation that is contrary to most of our tax and transfer program policies. Provision of dependents' benefits or some family size adjustment to the basic benefit level are the most commonly proposed solutions to this problem.

c. Inclusion of noncash compensation. Some persons recommend including noncash employer-provided fringe benefits in the pre-unemployment wage against which UC benefits are measured for adequacy. In recent years, fringe benefits have begun to make up an increasingly larger share of worker compensation. Such benefits may include not only health insurance, life insurance, and a pension plan, but also education benefits for the worker or members of his family, subsidized transportation, child care, and even meals. However, if the criterion used to measure benefit adequacy is the extent to which the worker and his family can meet their nondeferrable living expenses and not suffer a significant decline in their standard of living, most of these fringe benefits, with the exception of health insurance, are not essential for what is presumably a temporary and often short spell of unemployment.

Health insurance, however, is a fringe benefit most often considered as appropriately included in pre-unemployment wages because lack of needed health care or out-of-pocket payment for large, uninsured medical expenses can have a devastating effect on a family's living standard. Recent legislation (P.L. 99-272, the Consolidated Omnibus Budget Reconciliation Act of 1985) requires employers to permit laid-off workers to continue to participate in employer-sponsored group health plans if the unemployed worker is willing (and able) to pay the full cost of the premiums. Thus, many analysts argue that the definition of pre-unemployment income should account for health insurance and that the best approximation of the value of that benefit is the premium cost.

d. Worker income versus family income. 16/ Replacement rates commonly are evaluated on the basis of only the worker's wages, but they can be calculated to take into account the earnings available from other family members to meet ongoing financial needs. Obviously, the UC benefit of a family's only breadwinner is less likely to provide adequately for a family's needs than is a UC benefit that is supplemented by continued earnings from another family member.

The issue of judging benefit adequacy in the context of total family income has emerged recently as increasing numbers of married women have entered the workforce. When the UC program was born during the Depression, most employed families had only one breadwinner, typically the husband. 17/ Joblessness then caused a total loss of earnings for a high proportion of families. However, today a large proportion of married-couple families have

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16/ The Congressional Budget Office (CBO) is currently engaged in a study of the incomes of UC recipients and their families. Using data from the Survey of Income and Program Participation (SIPP), the CBO study will provide new information about the role of the UC program in maintaining family incomes.

17/ See footnote 7.

two earners, both husband and wife. 18/ The rise of such two-earner families has changed the public's perception of appropriate and adequate benefit levels. It was originally thought that a replacement rate of 50 percent of the sole earner's wages would allow an average wage worker's family to weather a spell of unemployment. Today, when both spouses work, at least for part of the year, a 50 percent UC earnings replacement rate for the unemployed spouse allows the family to maintain more than 50 percent of its pre-unemployment earnings. When husband and wife contribute equally to family earned income, a 50 percent replacement rate for one worker's wages allows the family to maintain 75 percent of its pre-unemployment earnings.

Some argue that basing UC benefits to secondary family earners (those with the smaller earnings) on the same formula used to calculate benefits of primary family earners amounts to a windfall of subsidized leisure for that worker and family. This may be true when the earnings of a second worker allow purchase of nonessential or luxury goods, although taxation all UC benefits reduces their value. Analysts have demonstrated that the financial hardship caused by such a worker's unemployment may be minimal or nonexistent. 19/ However, many two-earner families in which one member becomes unemployed and receives UC rely

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18/ The Bureau of Labor Statistics (BLS) reports that in March 1987, 43 percent of husband-wife families said the family at some time in 1986 had two earners consisting of husband and wife (and that 55.9 percent of husband-wife families said the family had three earners, including husband and wife, at some time, in 1986). Further, BLS reports that married-couple families with husband and wife both in the labor force accounted for 44 percent of the labor force in March 1987. The latter percentage is more than four times what it was in 1940 (see footnote 7).

19/ Feldstein, Martin. Unemployment Compensation: Adverse Incentives and Distributional Anomalies. National Tax Journal, v. 27, June 1974. p. 231-244.

heavily on the incomes of both workers to meet basic family needs. 20/ An equitable distinction between these two types of dual-earner families is difficult to make. In the 1970s, Feldstein argued that taxation of benefits would be the appropriate way to address the potential overgenerosity of benefits to secondary workers in high-income families, and Congress adopted such a policy, effective in 1987. The benefits of a low-wage secondary worker in a high-income family are taxed at the maximum marginal tax rate.

20/ In 1982-83, 17 percent of children in married-couple families whose mother and father both worked had incomes below the poverty threshold. U.S. Congress. House. Committee on Ways and Means. Children in Poverty. Committee Print 99-8, 99th Cong., 1st Sess. Washington, U.S. Govt. Print. Off, 1985. p. 132.

II. ESTIMATING ALTERNATIVE MEASURES OF BENEFIT ADEQUACY

A. Methodology

The extent to which the adequacy of UC benefits currently paid by States can be evaluated depends on the data available. The most accurate evaluation would be based on State-specific data collected on actual UC recipients and would include their benefits and length of time unemployed, pre-unemployment income over different time periods, and their family composition and post-unemployment income. If adequacy were to be measured in terms of replacement of essential expenses, expenditure data also would be needed. Unfortunately, such a comprehensive data base does not exist.

As an alternative to using information about actual specific workers, benefit levels can be calculated for hypothetical unemployed workers. This is the method used in this report. Although such an analysis cannot give distributional information about actual UC claimants and benefits, it is useful for comparing the adequacy of current State benefit formulas by various measures, across types of workers and States. 21/

In specifying hypothetical cases for analysis, we first made the following simplifying assumptions: (1) all hypothetical claimants are married and have two children; (2) each is assumed to have had one continuous 13-week spell of unemployment in a year (about an average-length spell); (3) in calculating the

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21/ The forthcoming study by CBO, cited above, will include an analysis of the distribution of benefits actually received by respondents in the SIPP sample in 1984 and 1985, disaggregated by their previous earnings, marital status and other characteristics.

annual wage maintenance rates of the unemployed, we assumed the unemployed worker becomes reemployed after 13 weeks at the same wage rate earned before the spell of unemployment. Although these assumptions constrain the extent of the analysis, they were necessary to keep the evaluation manageable.

For the hypothetical workers and families, benefits were calculated according to each State's rules as of January 1, 1988. Hypothetical workers were specified at three different pre-unemployment wage levels. Federal income taxes were calculated for benefits and wages when net amounts were analyzed, and the FICA tax was subtracted from wages. Because of the variation and complexity of State income taxes, they were not estimated. Further, work expenses other that Federal income and FICA taxes were ignored. Thus, there is some overstatement of "net wages."

The variables used in the calculation of alternative measures of adequacy of January 1988 benefit levels were as follows:

o Pre-unemployment wage levels of worker

-- low-wage: $11,440 annually 22/ ($5.50 per hour);
-- State average wage: the average wage in each State in 1986 for workers in covered employment;
-- national average wage: $24,203, the average wage for workers employed full-time, full-year, in 1986;
-- high-wage: $44,812 annually (four times the 1986 poverty threshold for a four-person family);

o Accounting periods

-- 1 week (for wage replacement during periods of no work);
-- 1 year (wage maintenance rate for periods with some work and some unemployment);

22/ The amount of $11,440 was 102 percent of the 1986 poverty threshold for a four-person family.

- o Definitions of benefits (January 1, 1988, benefit levels)
  - -- Pre-tax;
  - -- net of 1988 Federal income taxes; 23/
- o Definitions of earnings
  - -- pre-tax;
  - -- after-tax (net of 1988 Federal income taxes and FICA taxes).

B. Alternative Measures of Benefit Adequacy

1. Weekly Wage Replacement Rates

Table 5.2 shows weekly pre-tax wage replacement rates for average wage workers in UC-covered employment in each State. States are ranked from that with the highest replacement rate (65 percent in Oregon) to the lowest (35 percent in Indiana). The mean and the median gross weekly replacement rate is 50 percent, and, according to the criterion that benefits should replace 50 percent of earnings, 34 out of 53 jurisdictions pay "adequate" weekly benefits; 19 jurisdictions do not, although 5 jurisdictions pay within 5 percentage points of 50 percent. 24/ According to Vickery's needs-based criterion that

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23/ Weekly benefits net of Federal income taxes were computed by generating an annual income for the worker (assuming earnings for three quarters of the year and UC in one full quarter of the year) and spouse. An effective tax rate was computed by dividing tax liability over gross income. This effective tax rate was applied to the weekly benefit. (The Federal income tax computation takes account of the Earned Income Tax Credit (EITC), available to workers with relatively low earnings who have dependent children.)

24/ The finding that two-thirds of the States pay UC benefits to replace about 50 percent of past wages to these hypothetical workers is not strictly comparable with the finding in chapter 2 that the ratio of the 1986 national average UC benefit to the average weekly wage is about 0.38. The chapter 2 finding is not a replacement rate; rather it is the ratio of the average benefit paid to UC beneficiaries to the average wage paid to workers in covered employment in 1986. The chapter 2 ratio is based on two different population groups, and it reflects the distribution both of benefits among UC recipients and of wages for workers. This chapter's method is different: it constructs fictional workers, gives them an assumed earnings level, in this case earnings assumed to be the State's average weekly wage for 1986 (the last year for which these data are available); and then calculates what benefit they would receive in January 1988 if they became unemployed.

middle-income families need 54 percent of their pre-unemployment wages to cover their nondeferrable needs, 14 jurisdictions provide adequate benefits; 39 jurisdictions do not, but 22 jurisdictions pay just 5 percentage points less than this adequacy measure. 25/ 26/ Thus, in approximately 7 out of 10 jurisdictions benefits to average-wage workers are adequate or nearly adequate. Again, it should be emphasized that these adequacy standards are not precise.

25/ Because the average wage in table 5.2 varies by State, in some States average-wage workers may fall below the "middle" wage as defined by Vickery, and some may be above that range. Thus, the 54 percent needs-based criterion may be lower than "warranted" for States with low average wages and higher than warranted in high-wage States.

26/ When ranked according to their UC replacement rates, the States do not fall in the positions they normally take when ranked according to the "generosity" of their social welfare programs. For example, Vermont, Alaska, New York, and California rank at the top of the States in their payments for Aid to Families with Dependent Children (AFDC), but are average or below in their UC replacement rates. (Of these four States, Alaska and California have wages significantly above the average.) In some States it may be fairly easy to qualify for a benefit, but the benefits paid are low relative to wages. California is an example.

TABLE 5.2 Weekly Pre-Tax UC Replacement Rates by State: for Workers with State's Average Weekly Wage in Covered Employment a/

State	Replacement rate
Oregon	0.65
Massachusetts	0.62
Rhode Island	0.60
Iowa	0.59
Maine	0.56
Connecticut	0.56
New Jersey	0.56
Maryland	0.56
Washington	0.56
Colorado	0.55
Kansas	0.55
Pennsylvania	0.55
Michigan	0.54
District of Columbia	0.54
Delaware	0.53
Louisiana	0.52
Wyoming	0.52
West Virginia	0.52
Texas	0.52
Oklahoma	0.52
Hawaii	0.52
Nevada	0.51
Utah	0.50
North Carolina	0.50
Minnesota	0.50
Wisconsin	0.50
Virgin Islands	0.50
South Dakota	0.50
Idaho	0.50
Florida	0.50
Arkansas	0.50
Puerto Rico	0.50
New Mexico	0.50
Vermont	0.50
Montana	0.49

See footnote on the following page.

TABLE 5.2. Weekly Pre-Tax UC Replacement Rates by State: for Workers with State's Average Weekly Wage in Covered Employment a/--Continued

State	Replacement rate
Illinois	0.49
Virginia	0.47
Alaska	0.46
Kentucky	0.45
New Hampshire	0.44
Mississippi	0.44
Nebraska	0.44
Georgia	0.43
South Carolina	0.42
Tennessee	0.41
Ohio	0.41
North Dakota	0.40
New York	0.40
California	0.39
Missouri	0.38
Arizona	0.38
Alabama	0.36
Indiana	0.35

a/ Worker is assumed to be married, with a nonworking spouse and two children. Dependents' allowances are included where applicable. UC benefit levels are those of January 1988. States' average weekly wages in covered employment are those for 1986.

Source: Table prepared by the Congressional Research Service (CRS). Benefit formula and average weekly wage information are from the U.S. Department of Labor (DoL).

2. Annual Wage Maintenance Rates

The UC benefits are paid weekly, and State benefit formulas are based on weekly pre-unemployment wages. Therefore, replacement rates and benefit adequacy are typically evaluated on a weekly basis. Benefits and wages can be measured over a longer period of time to gain another perspective on the extent to which a worker's or family's living standard is jeopardized by a spell of joblessness. Although many workers undoubtedly find it difficult to miss even one paycheck, others can weather some interruption in their cash flow.

Table 5.3 shows the annual pre-tax wage maintenance rates for a worker with 39 weeks of earnings and a 13-week spell of unemployment during the year (about the average length of a spell of unemployment). The hypothetical worker illustrated by this table had pre-unemployment earnings at the average wage paid in UC-covered employment in each State. The States are ranked from those in which this hypothetical type of worker would have the highest annual wage maintenance rate (Iowa and Oregon, 90 percent) to that in which it would be the lowest (Indiana, 83 percent). As should be expected, this table, when compared with table 5.2, suggests that a temporary, 13-week spell of unemployment during a year in which the worker is otherwise employed causes substantially less apparent hardship than when benefit rates are considered on a weekly basis. Nevertheless, it must be remembered that, if a spell of unemployment extended well beyond the 13 weeks assumed for the worker in table 5.3, the annual wage maintenance rate would decline sharply. If benefits were actually exhausted and the worker remained unemployed, these rates could be extremely low. (See table 5.1.)

TABLE 5.3. Annual Pre-Tax Wage Maintenance Rates for UC Beneficiaries (Workers with State's Average Weekly Wage in Covered Employment) a/

State	Wage maintenance rate
Oregon	0.90
Iowa	0.90
Massachusetts	0.89
Connecticut	0.89
Maryland	0.89
Rhode Island	0.89
Michigan	0.89
District of Columbia	0.88
Delaware	0.88
Maine	0.88
New Jersey	0.88
Washington	0.88
Colorado	0.88
Kansas	0.88
Nevada	0.88
Pennsylvania	0.88
Wisconsin	0.88
New Mexico	0.87
Louisiana	0.87
West Virginia	0.87
Oklahoma	0.87
Wyoming	0.87
Texas	0.87
Hawaii	0.87
Virginia	0.87
North Carolina	0.87
Virgin Islands	0.87
Utah	0.87
South Dakota	0.87
Minnesota	0.87
Idaho	0.87
Florida	0.87
Arkansas	0.87
Puerto Rico	0.87
Vermont	0.87

See footnote on the following page.

TABLE 5.3. Annual Pre-Tax Wage Maintenance Rates for UC Beneficiaries (Workers with State's Average Weekly Wage in Covered Employment) a/--Continued

State	Wage maintenance rate
Kentucky	0.86
Montana	0.86
Illinois	0.86
New Hampshire	0.86
Alaska	0.86
Mississippi	0.85
Nebraska	0.85
Georgia	0.85
South Carolina	0.85
Tennessee	0.84
Ohio	0.84
North Dakota	0.84
New York	0.84
Alabama	0.84
California	0.84
Missouri	0.84
Arizona	0.84
Indiana	0.83

a/ Worker is assumed to be married, with a nonworking spouse and two children. Dependents' allowances are included where applicable. UC benefit levels are those of January 1988. States' average weekly wages in covered employment are those for 1986.

Source: Table prepared by CRS. Benefit formula and average weekly wage information are from DoL.

3. Before-Tax Versus After-Tax Benefits and Earnings

The definition of UC benefits and pre-unemployment earnings as before-tax or after-tax affects the replacement rate measure. To define earnings as before-tax overstates the available take-home pay of workers while they are employed, although it appears to be the definition used when the original 50 percent replacement rate was suggested. As discussed earlier, the adequacy of benefits for maintaining pre-unemployment living standards might be better measured by comparing gross benefits to take-home pay. It can be argued that an appropriate measure for assessing benefits during a relatively short spell of unemployment is a comparison of before-tax weekly benefits with after-tax pre-unemployment earnings. Although UC benefits are subject to Federal income taxes (and usually to State income taxes) and must be included in the tax filer's taxable income at the end of the year, there is no current withholding from the weekly benefit check. Therefore, the cash available to meet a family's needs during the spell of unemployment is the full amount of the benefit. However, because all benefits must ultimately be included in taxable income, their true value is their after-tax value.

Table 5.4 illustrates how different applications of Federal income and FICA taxes to benefits and earnings affect replacement rates. Weekly replacement rates are measured for low-wage workers and high-wage workers using three different measures: Column 1 shows replacement rates using after-tax benefits and earnings, ranked from high to low; column 2 shows replacement rates using pre-tax benefits and earnings; column 3 shows replacement rates using before-tax benefits and after-tax earnings.

TABLE 5.4. Weekly UC Replacement Rates Under Alternative Tax Treatments of UC and Earnings by State for Low-Wage and High-Wage Earners a/ b/

	After-tax benefits/ after-tax earnings	Pre-tax benefits/ pre-tax earnings	Pre-tax benefits/ after-tax earnings
Low-wage earner			
Massachusetts	0.80	0.73	0.74
Illinois	0.77	0.70	0.71
Michigan	0.76	0.69	0.70
Kentucky	0.75	0.69	0.70
Oregon	0.71	0.65	0.66
Rhode Island	0.71	0.65	0.65
Connecticut	0.70	0.64	0.64
Iowa	0.68	0.62	0.63
District of Columbia	0.67	0.61	0.62
New Jersey	0.66	0.60	0.61
Delaware	0.66	0.60	0.61
Colorado	0.66	0.60	0.61
Maryland	0.66	0.60	0.60
Maine	0.65	0.59	0.60
Missouri	0.64	0.59	0.59
Vermont	0.64	0.58	0.59
Pennsylvania	0.62	0.56	0.57
Indiana	0.61	0.56	0.57
Kansas	0.61	0.55	0.56
Alaska	0.60	0.55	0.55
Alabama	0.60	0.54	0.55
Nebraska	0.59	0.54	0.54
New Hampshire	0.59	0.53	0.54
Louisiana	0.58	0.52	0.53
Wyoming	0.57	0.52	0.53
West Virginia	0.57	0.52	0.53
Washington	0.57	0.52	0.53
Virginia	0.57	0.52	0.53
Texas	0.57	0.52	0.53
Oklahoma	0.57	0.52	0.53
Nevada	0.57	0.52	0.53
Hawaii	0.57	0.52	0.53
Georgia	0.57	0.52	0.53
Arizona	0.57	0.52	0.53
Wisconsin	0.55	0.50	0.51

See footnotes at end of table.

TABLE 5.4. Weekly UC Replacement Rates Under Alternative Tax Treatments of UC and Earnings by State for Low-Wage and High-Wage Earners a/ b/--Continued

	After-tax benefits/ after-tax earnings	Pre-tax benefits/ pre-tax earnings	Pre-tax benefits/ after-tax earnings
Low-wage earner (continued)			
Utah	0.55	0.50	0.51
South Dakota	0.55	0.50	0.51
South Carolina	0.55	0.50	0.51
Ohio	0.55	0.50	0.51
North Carolina	0.55	0.50	0.51
New York	0.55	0.50	0.51
New Mexico	0.55	0.50	0.51
Mississippi	0.55	0.50	0.51
Minnesota	0.55	0.50	0.51
Idaho	0.55	0.50	0.51
Florida	0.55	0.50	0.51
Arkansas	0.55	0.50	0.51
Montana	0.54	0.49	0.50
California	0.50	0.45	0.46
Tennessee	0.48	0.44	0.44
North Dakota	0.44	0.40	0.41
High-wage earner			
Massachusetts	0.37	0.33	0.41
Pennsylvania	0.34	0.30	0.37
Minnesota	0.32	0.29	0.36
District of Columbia	0.32	0.29	0.36
Ohio	0.32	0.29	0.35
Connecticut	0.32	0.29	0.35
Michigan	0.31	0.28	0.35
New Jersey	0.31	0.28	0.34
Rhode Island	0.31	0.27	0.34
Illinois	0.30	0.27	0.33
West Virginia	0.29	0.26	0.32
Hawaii	0.29	0.26	0.32
Oregon	0.29	0.26	0.32
Colorado	0.28	0.25	0.30
Texas	0.27	0.24	0.30

See footnotes at end of table.

TABLE 5.4. Weekly UC Replacement Rates Under Alternative Tax Treatments of UC and Earnings by State for Low-Wage and High-Wage Earners a/ b/--Continued

	After-tax benefits/ after-tax earnings	Pre-tax benefits/ pre-tax earnings	Pre-tax benefits/ after-tax earnings
High-wage earner (continued)			
Maryland	0.27	0.24	0.30
Washington	0.27	0.24	0.29
Louisiana	0.27	0.24	0.29
Delaware	0.26	0.24	0.29
North Carolina	0.26	0.24	0.29
Kansas	0.26	0.24	0.29
Arkansas	0.26	0.24	0.29
Utah	0.26	0.23	0.29
Florida	0.26	0.23	0.29
Wisconsin	0.26	0.23	0.29
Wyoming	0.26	0.23	0.28
Oklahoma	0.25	0.23	0.28
Idaho	0.24	0.22	0.27
Alaska	0.24	0.22	0.27
Montana	0.23	0.21	0.26
New York	0.23	0.21	0.26
Iowa	0.23	0.21	0.26
North Dakota	0.23	0.21	0.26
Nevada	0.23	0.21	0.25
Maine	0.23	0.20	0.25
Virginia	0.22	0.19	0.24
California	0.21	0.19	0.24
Vermont	0.21	0.19	0.23
New Mexico	0.21	0.18	0.23
New Hampshire	0.20	0.18	0.22
Georgia	0.20	0.18	0.22
Kentucky	0.20	0.18	0.22
Tennessee	0.19	0.17	0.21
South Dakota	0.18	0.16	0.20
Missouri	0.18	0.16	0.20

See footnotes at end of table.

TABLE 5.4. Weekly UC Replacement Rates Under Alternative Tax Treatments of UC and Earnings by State for Low-Wage and High-Wage Earners a/ b/--Continued

	After-tax benefits/ after-tax earnings	Pre-tax benefits/ pre-tax earnings	Pre-tax benefits/ after-tax earnings
High-wage earner (continued)			
Arizona	0.17	0.16	0.19
Nebraska	0.17	0.16	0.19
South Carolina	0.17	0.15	0.19
Mississippi	0.17	0.15	0.19
Indiana	0.17	0.15	0.18
Alabama	0.16	0.14	0.17

a/ Worker is assumed to be married, with a nonworking spouse, and two children. Dependents' allowances are included where applicable. Worker is assumed to be jobless for one-fourth of the year. Low-wage worker is defined as having annual earnings of $11,400 a year, or an hourly wage rate of $5.50. High-wage worker is defined as having annual earnings of $44,812, four times the 1986 poverty threshold for a family of four. Federal income taxes and social security payroll taxes are calculated at 1988 rates. All calculations were first made on an annual basis and then divided by 52 to convert to weekly replacement rates. UC benefit levels are those available in January 1988.

b/ Puerto Rico and the Virgin Islands are excluded because they do not pay U.S. Federal income taxes. However, UC benefits are taxable in those jurisdictions under the applicable tax rates, which would be analogous to State income tax laws in the 50 States.

Source: Table prepared by CRS. Benefit formula data are from DoL.

In column 1, income taxes were subtracted from benefits (the numerator) and income taxes plus FICA taxes were subtracted from earnings (the denominator). In column 3 benefits are pre-tax, while in column 1 they are after-tax. For low-wage workers, after-tax benefits appear to be higher than pre-tax benefits because the loss in income during a spell of unemployment increases the amount of the EITC. 27/ The result is that for low-wage workers, the measure that shows the highest replacement rates is column 1, after-tax benefits divided by after-tax earnings. However, for high-wage workers, the measure that yields the highest replacement rate is column 3, pre-tax benefits divided by after-tax earnings. On the one hand, because there is no tax withholding from UC checks, this measure most accurately portrays the short-term effects of temporary unemployment on a family's cash-flow; on the other hand, because benefits will eventually be included in taxable income, it overrepresents income from UC in the long run.

Most jurisdictions meet the 50 percent adequacy criterion for low-wage workers regardless of the definition of the ratio with regard to taxes, but only six jurisdictions provide adequate wage replacement (column 2), as judged by using Vickery's criterion that low-wage workers need 65 percent of their pre-tax income for nondeferrable expenses. Thus, the balance between adequacy and work disincentives appears to be particularly difficult to strike for low-wage workers whose normal earnings exceed nondeferrable expenses by very little, and the definition of the tax treatment of benefits and pre-unemployment earnings can make the difference in the direction in which that balance appears to tilt.

For high-wage workers, no State replaces 50 percent of pre-unemployment wages, regardless of the definition of the replacement rate measure. This is generally a matter of State policy, since all jurisdictions limit benefits to high-wage workers by placing a ceiling on the amount payable. Also, regardless of the definition of the tax treatment of benefits and earnings, no State meets

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27/ The 1988 FICA tax rate is 7.51 percent of all wages of a low-wage worker. The EITC is 14 percent of wages up to a ceiling. Earnings of the worker with a low-wage job during three-fourths of the year ($8,550) are under the ceiling.

Vickery's criteria of 45 percent wage replacement for high-wage workers. [28] However, the 45 percent needs-based measure of adequacy for high-income workers was intended to be applied to pre-tax earnings. Thus, the replacement rates in column 3 somewhat overstate benefit adequacy in comparison with Vickery's measure. Again, State benefit ceilings are explicitly intended to lower replacement rates for high-wage workers (see section 4, following).

4. The Effects of Benefit Ceilings

Benefit adequacy cannot be evaluated on the basis of replacement rates alone because all jurisdictions have minimum and maximum weekly benefits. Minimum benefits currently range from $5 in Hawaii to $62 in Alaska for unemployed workers with one dependent. Maximum weekly benefits range from $96 in Indiana (if the worker has no dependents) to $354 in Massachusetts (for workers with one dependent). These maximum benefit payments are generally determined as a percentage of the average weekly wage in covered employment in the State. Table 5.5 shows State maximum weekly payments as of January 1988. Even though ceilings are determined on the basis of the State average wage, States do not fall in the same order as they do when ranked by replacement rates for average-wage workers (table 5.2) because some jurisdictions regularly increase their maximum payment level as average wages rise, while others do not. Thus, in jurisdictions that do not automatically increase maximums or that have imposed a freeze on the maximum, benefits (and therefore replacement rates) are restricted not only for high-wage claimants but also for those at lower relative wage levels because of wage growth over time.

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[28] As noted before, the high-wage worker is assumed to have annual pre-unemployment wages of $44,812, and Vickery's upper-middle family is assumed to have pre-tax annual family income ranging from $41,820-$86,100 in 1988 dollars.

TABLE 5.5. State Maximum Weekly Benefits as of January 3, 1988 a/

State	Weekly maximum	State	Weekly maximum
Massachusetts	$236-354	Wyoming	$198
Rhode Island	225-281	Oklahoma	197
Connecticut	216-266	Maryland	195
Alaska	188-260	Louisiana	191
Minnesota	250	Idaho	188
District of Columbia	250	Montana	181
Ohio	157-248	New York	180
Maine	161-241	North Dakota	179
New Jersey	241	Nevada	177
Illinois	176-230	California	166
Michigan	229	Indiana	96-161
West Virginia	225	Vermont	160
Hawaii	223	New Mexico	158
Oregon	222	New Hampshire	156
Colorado	213	Georgia	155
Texas	210	Kentucky	151
Washington	205	Tennessee	145
Delaware	205	Missouri	140
Iowa	167-205	South Dakota	140
Arkansas	204	Virgin Islands	138
North Carolina	204	Arizona	135
Kansas	204	Nebraska	134
Utah	202	South Carolina	132
Florida	200	Mississippi	130
Wisconsin	200	Alabama	120
		Puerto Rico	110

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a/ The States for which maximums are shown as a range pay dependents' allowances that affect the maximum benefits. Other States provide dependents' allowances but do not increase their maximum benefits because of them.

Overall, even though benefits are a function of pre-unemployment wages, because of the maximums imposed on benefits, wage replacement rates tend to vary inversely with the claimant's weekly wage, but only after the level where the maximum takes effect. This is often below the average State wage. At lower levels, the wage replacement rates are flat. High-wage earners receive lower wage replacement rates than do low-wage workers. This progressivity in the distribution of benefits is a characteristic of most of our public tax and transfer programs. In general, the concept of target efficiency in the distribution of limited resources dictates that benefits be targeted to those most in need and be relatively smaller to those with lesser need. Hence, UC benefits provide the highest wage replacement to low-wage workers, who are expected to have fewer alternative resources of their own than do those whose earnings are normally high. This is an implicit "welfare" feature of the UC program. When evaluating benefit adequacy, therefore, this redistributional feature of State benefit formulas must be kept in mind.

Table 5.6 shows weekly after-tax replacement rates for low-, average-, and high-wage workers, and illustrates how replacement rates decline as income rises. The States are ranked from high to low according to the average-wage worker (column 2). In this table, the average wage is the weekly equivalent of the U.S. average wage in 1986 for a full-time, full-year worker ($24,203). The data reflect the features of State programs that cause progressivity in the distribution of benefits. For workers earning average wages, only 14 jurisdictions provide 50 percent or more of pre-unemployment wages (another 15 provide 45 to 49 percent), and 9 provide adequate coverage of nondeferrable expenses during weeks of total unemployment, as measured by the Vickery standard of 54 percent (another 10 provide 49 to 53 percent). As expected, weekly replacement rates are relatively low for the high-wage worker, ranging from 37 percent in Massachusetts down to 16 percent in Alabama. No State meets the 50 percent wage replacement criterion for high-wage workers since most State programs are explicitly designed to provide less than that amount for above-average wage workers. No State meets Vickery's 45 percent wage replacement standard for high-wage workers. Fourteen States meet Vickery's 65 percent wage replacement standard for low-wage workers: Massachusetts, Illinois, Michigan, Kentucky, Rhode Island, Oregon, Connecticut, Iowa, the District of Columbia, Delaware, New Jersey, Colorado, Maryland, and Maine.

TABLE 5.6. Weekly After-Tax a/ UC Replacement Rates for Low-Wage, National Average-Wage, and High-Wage Workers b/ c/

State	Low-wage earner d/	National average-wage earner e/	High-wage earner f/
Massachusetts	0.80	0.67	0.37
Pennsylvania	0.62	0.60	0.34
District of Columbia	0.67	0.59	0.32
Connecticut	0.70	0.58	0.32
Michigan	0.76	0.57	0.31
New Jersey	0.66	0.57	0.31
Rhode Island	0.71	0.56	0.31
Ohio	0.55	0.55	0.32
Minnesota	0.55	0.55	0.32
West Virginia	0.57	0.53	0.29
Hawaii	0.57	0.53	0.29
Oregon	0.71	0.53	0.29
Colorado	0.66	0.51	0.28
Texas	0.57	0.50	0.27
Maryland	0.66	0.49	0.27
Illinois	0.77	0.49	0.30
Louisiana	0.58	0.49	0.27
Washington	0.57	0.49	0.27
Delaware	0.66	0.49	0.26
Kansas	0.61	0.49	0.26
Arkansas	0.55	0.49	0.26
North Carolina	0.55	0.49	0.26
Utah	0.55	0.48	0.26
Florida	0.55	0.48	0.26
Wisconsin	0.55	0.48	0.26
Wyoming	0.57	0.47	0.26
Oklahoma	0.57	0.47	0.25
Alaska	0.60	0.45	0.24
Idaho	0.55	0.45	0.24
Montana	0.54	0.43	0.23
New York	0.55	0.43	0.23
Iowa	0.68	0.43	0.23
North Dakota	0.44	0.43	0.23
Nevada	0.57	0.42	0.23
Maine	0.65	0.42	0.23

See footnotes at end of table.

TABLE 5.6. Weekly After-Tax a/ UC Replacement Rates for Low-Wage, National Average-Wage, and High-Wage Workers b/ c/--Continued

State	Low-wage earner d/	National average-wage earner e/	High-wage earner f/
Virginia	0.37	0.40	0.22
California	0.50	0.40	0.21
Vermont	0.64	0.38	0.21
New Mexico	0.55	0.38	0.21
New Hampshire	0.59	0.37	0.20
Georgia	0.57	0.37	0.20
Kentucky	0.75	0.36	0.20
Tennessee	0.48	0.35	0.19
Missouri	0.64	0.33	0.18
South Dakota	0.55	0.33	0.18
Arizona	0.57	0.32	0.17
Nebraska	0.59	0.32	0.17
South Carolina	0.55	0.32	0.17
Mississippi	0.55	0.31	0.17
Indiana	0.61	0.31	0.17
Alabama	0.60	0.29	0.16

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a/ Federal income taxes, social security taxes, and the EITC are calculated for annual earnings, and income taxes only are calculated for 13 weeks of UC benefits; then both net earnings and benefits are converted to a weekly basis.

b/ Puerto Rico and the Virgin Islands are excluded because they do not pay U.S. Federal income taxes. However, UC benefits are taxable in those jurisdictions under the applicable tax rates, which would be analogous to State income tax laws in the 50 States.

c/ Worker is assumed to be married, with a nonworking spouse and two children. UC benefit levels are those available in January 1988, and dependents' allowances are included where applicable. Worker is assumed to be jobless for 3 weeks.

d/ Worker with annual earnings of $11,400 a year, or an hourly wage rate of $5.50.

e/ Worker with annual earnings of $24,203 a year, the average earnings for a full-year/full-time worker in 1986.

f/ Worker with annual earnings of $44,812 a year, four times the 1986 poverty threshold for a family of four.

Source: Table prepared by CRS. Benefit formulas are from DoL.

5. Unemployment of a Primary Earner Versus a Secondary Earner

One criticism of the UC program is that it provides equal benefits to unemployed, low-wage workers who are sole family supporters and to low-wage, "secondary" family earners whose wages are not the family's only earnings and may not be essential for meeting household expenses. Concern is sometimes expressed that wage replacement rates may not be adequate to meet the basic needs of a family with one low-wage worker, yet may be overly generous to unemployed workers in families with other earners and resources. (Table A.34 in appendix A shows that in 1986, 43.5 percent of all UC recipients were in families with two earners, and 20.6 percent were in families with three or more earners.)

Table 5.7 shows pre-tax weekly replacement rates for low-wage workers. All but four jurisdictions meet the 50 percent replacement rate criterion, but only six meet Vickery's 65 percent needs-based adequacy measure for low-wage workers, indicating that families who must rely on the UC benefits of one low-wage, unemployed earner may experience substantial hardship during weeks of total unemployment.

TABLE 5.7. Weekly Pre-Tax UC Replacement Rates for Low-Wage Workers a/

State	Replacement rate
Massachusetts	0.73
Illinois	0.70
Kentucky	0.69
Michigan	0.66
Oregon	0.65
Rhode Island	0.65
Connecticut	0.64
Iowa	0.62
District of Columbia	0.61
Colorado	0.60
New Jersey	0.60
Delaware	0.60
Maryland	0.60
Maine	0.59
Missouri	0.59
Vermont	0.58
Pennsylvania	0.56
Indiana	0.56
Kansas	0.55
Alaska	0.55
Alabama	0.54
Nebraska	0.54
New Hampshire	0.53
Louisiana	0.52
Oklahoma	0.52
Wyoming	0.52
Nevada	0.52
Washington	0.52
West Virginia	0.52
Texas	0.52
Hawaii	0.52
Georgia	0.52
Arizona	0.52
Virginia	0.52
Florida	0.50

See footnote on the following page.

TABLE 5.7. Weekly Pre-Tax UC Replacement Rates for Low-Wage Workers a/--Continued

State	Replacement rate
South Dakota	0.50
North Carolina	0.50
Wisconsin	0.50
Mississippi	0.50
New Mexico	0.50
Utah	0.50
Minnesota	0.50
Idaho	0.50
South Carolina	0.50
Puerto Rico	0.50
Virgin Islands	0.50
New York	0.50
Ohio	0.50
Arkansas	0.50
Montana	0.49
California	0.45
Tennessee	0.44
North Dakota	0.40

a/ Worker with annual earnings of $11,400 a year, or an hourly wage rate of $5.50. Worker is assumed to be married, with a nonworking spouse and two children. UC benefit levels are those available in January 1988, and dependents' allowances are included where applicable.

Source: Table prepared by CRS. Benefit formulas are from DoL.

When the unemployed low-wage worker is the secondary family earner, however, the adequacy of the family's income is different, as should be expected. As long as there is a higher-wage worker who remains employed during the period when the low-wage worker is jobless, family income does not fall below an adequate level by either definition of adequacy. For example, take a family in which the low-wage secondary earner earns $220 per week (an annual rate of $11,440 per year, the definition of a low-wage worker used throughout this report) and the primary worker earns $861.77 per week ($44,812 per year, the definition of a high-wage worker used here). In States that provide UC benefits of 50 percent of pre-unemployment wages for low-wage workers (as most do), this type of family will have a weekly earnings loss of $110 per week, only about 10 percent, not enough to cause hardship by the standards in this report.

When the pre-unemployment earnings of two family earners are similar, however, the unemployment of one member causes a greater reduction in the family's income. If both workers earn about the same amount, a 50 percent UC replacement rate for one unemployed worker would result in about a 25 percent decline in the family's earned income provided the second worker was employed throughout the first worker's unemployment. A 75 percent wage maintenance rate for the family, by both absolute and relative measures, would be adequate to meet basic needs at any income level.

Overall, the data indicate that, by some measures, benefits may not be adequate to meet basic needs for some low-wage workers who are the sole family earner, but that, as is often noted, benefits help sustain the ability of two-earner families to continue to meet basic needs when a secondary worker is unemployed. Some regard this situation as inappropriate targeting of benefits. However, the only direct remedy would be to means-test eligibility and benefits, against which three arguments are made. First, this problem has been remedied in large part by the taxation of benefits. Including all UC benefits in taxable income amounts to a kind of means test on that income. If the unemployed worker is in a family that has substantial income, the benefits will be taxed at a higher rate than benefits to workers in a low-income family. Second, means-testing would contradict the basic social insurance premise of the program. Third, employers must pay the same unemployment payroll tax for all covered employees and expect it to provide insurance against loss of earnings for their workers without regard to family status. Some employers might oppose paying the tax for employees who might receive small or no UC benefits in the event of a lay-off, even though this could be beneficial to their "experience rating" and could reduce their rate of tax. If employers continued to be required to pay the tax on behalf of all workers, the effect would be that the taxes paid for low-wage secondary workers would subsidize the benefits of high-wage, primary earners. To the extent that employers take the cost of the unemployment payroll tax into account when setting wage levels, it reduces cash wages. In this sense, means-testing benefits would result in requiring some low-wage secondary workers to bear part of the cost of unemployment protection for high-wage primary workers.

III. DEPENDENTS' ALLOWANCES

Dependents' allowances for UC claimants represent an explicit welfare element in a work-related program of social insurance, and only 13 jurisdictions have some kind of special allowance in their benefit formula for dependents. 29/ Dependents' allowances may be provided to nonworking spouses as well as children, but some jurisdictions provide them only for children. These allowances are incorporated into the general benefit formula in a variety of ways. They may be simply an additional weekly amount for dependents, typically about $5 to $10, although some jurisdictions pay as much as $25. States generally place a limit on the allowances payable. In some jurisdictions the allowances are provided by increasing benefit maximums and in others dependents' allowances are not paid to claimants who qualify for the maximum weekly benefit.

Before UC benefits became taxable, dependents' allowances were advocated partially on the grounds that replacement rates for workers with dependents were lower than for those with similar wages but without dependents; the after-tax take-home pay of a worker with dependents reflects the personal tax exemptions for dependents. 30/ Taxation of benefits makes these replacement rates more nearly equal. However, it does so by reducing the after-tax value

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29/ Alaska, Connecticut, District of Columbia, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, New Jersey, Ohio, Pennsylvania, and Rhode Island provide some kind of dependents' allowance.

30/ Becker, Joseph M. Unemployment Benefits. Should There Be a Compulsory Federal Standard? Washington, American Enterprise Institute for Public Policy Research, 1980.

of benefits more sharply for UC claimants who lack dependents, not by providing higher benefits to workers with dependents.

Because wages earned by workers are not determined according to need or the presence of dependents in the worker's household, there is no inherent reason for the wage replacement formula to take household size into account. However, if benefits are deemed to be inadequate to meet the needs of unemployed family heads, provision of dependents' allowances would be less costly than an across-the-board increase in replacement rates.

IV. BENEFIT ADEQUACY AND WORK INCENTIVES

The social insurance programs created by the Social Security Act were modeled on private insurance concepts and sought to protect American workers and families against loss of income due to unemployment, retirement in old age, or death. However, social insurance programs, which spend public rather than private funds, generally place limitations on the extent of indemnification provided and must set priorities among the groups to whom those funds are distributed. Section 4 above, "The Effects of Benefit Ceilings," illustrates the targeting of UC program resources and the resulting progressivity in the distribution of benefits.

The distribution of benefits should be evaluated not only with respect to adequacy but also with respect to equity and work incentives. Benefits are inadequate if they do not meet the program's basic objective of alleviating hardship during spells of unemployment. They would be inequitable if they provided more generously for some unemployed workers than for others in similar circumstances. Benefits could be somewhat counterproductive if they were so generous that they caused workers to delay reemployment.

Striking the proper balance among these competing objectives is a goal to be sought in setting benefit levels and in evaluating benefit adequacy. One of the most difficult balances to strike is between benefit adequacy and maintenance of work incentives. Substantial research has been done on the labor supply effects of the UC program, although most of it focuses on the effect on labor supply of the availability of any program benefits, rather than on trying to determine the point at which wage replacement rates cross the line from protecting workers and their families from temporary hardship to substantially reducing or eliminating the reward for work. A number of studies have examined the effect of the availability of UC benefits on the length of spells of unemployment. On the one hand, there is evidence that the program may allow unemployed workers to prolong job search and postpone real job seeking and reemployment and that it subsidizes leisure. On the other hand, there is evidence that allowing unemployed workers to engage in job search without suffering undue hardship enables them to hold out for better, more suitable and stable employment, thus reducing subsequent spells of unemployment. Economic theory predicts a work disincentive effect from UC benefits, and empirical research confirms this theory. However, there is disagreement about the size of this effect.

Using 1969 data, Marston found that the program causes a small, but "perceptible" amount of unemployment (between 0.2 and 0.3 percent of the labor force). He also estimated that the expected duration of unemployment of the insured unemployed is about 16 percent to 31 percent longer than that of the uninsured, although some of the increase may be due to the tendency of UC recipients to remain in the labor force rather than to drop out. 31/

Ehrenberg and Oaxaca, using data from the National Longitudinal Survey (NLS), also found that UC benefits increase the duration of unemployment but tend to increase the level of post-unemployment wages of older workers. 32/

31/ Marston, Stephen T. The Impact of Unemployment Insurance on Job Search. Brookings Papers on Economic Activity, 1:1975. Washington, Brookings Institution, 1975. p. 13-48.

32/ Ehrenberg, R.G., and R.L. Oaxaca. Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain. American Economic Review, v. 66 (5), Dec. 1976. p. 754-66.

Classen found a direct relationship between UC benefits and the duration of unemployment, although her analysis was limited to data from the States of Pennsylvania and Arizona in the late 1960s. Her data indicate that a $10 increase in weekly benefits (at the time of her study) led to about a 1-week increase in the average duration of unemployment. She found no relationship in those States between benefits and the acceptance of more lucrative job offers among the insured unemployed. 33/

Feldstein, using data from the Current Population Survey (CPS), found that the availability of UC increases the rate of temporary unemployment. Rather than focusing on the effect of the program on the duration of spells of unemployment, he concluded that UC "could increase the duration of any given spell of unemployment [but] it may also induce more very short spells of unemployment." He also noted that it "reduces the wage differential required to attract workers to seasonal, cyclical and temporary jobs." 34/

Capen, Cohn, and Ellson, using data from the 1976 Panel Study of Income Dynamics (PSID) found that receipt of UC benefits reduced the amount of time claimants worked in a year by 2.1 weeks. 35/

In 1974 Munts and Garfinkel reviewed a wide array of research on the work disincentive effects of UC, and concluded that much of the research on this topic had technical problems that made it difficult to interpret the findings conclusively. In general, however, they found that the evidence suggested that

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33/ Classen, Kathleen P. The Effect of Unemployment Insurance on the Duration of Unemployment and Subsequent Earnings. Industrial and Labor Relations Review, v. 30, no. 4, July 1977. p. 438-444.

34/ Feldstein, Martin S. Lowering the Permanent Rate of Unemployment. Study prepared for the Joint Economic Committee, 93rd Cong., 1st Sess., 1978.

35/ Capen, Margaret M., Cohn, Elchanan, and Richard Ellson. Labour Supply Effects of Unemployment Insurance Benefits. Applied Economics, v. 17, Feb. 1985. p. 73-85.

the program has some work disincentive effects, but that they probably are not large. They concluded that any work disincentive effects must be weighed against the benefits of both alleviating hardship and allowing workers the opportunity to obtain the best job they can. 36/

36/ Munts and Garfinkel, p. 49-59.

V. BENEFIT DURATION

The period during which UC benefits are payable affects their total size and adequacy and their impact on job search. When the UC program was being drafted during the Great Depression, long spells of unemployment were common. 37/ However, the Advisory Council to the Committee on Economic Security recommended that the length of the maximum "standard benefit" should be relatively short, not less than 14 weeks in any consecutive 12 months (with an extra 10 weeks permitted for persons with long and continuous employment). Its recommendations included a waiting period of four weeks. 38/

In its report to the President, the Committee recommended that Congress permit States to decide the amount and duration of benefits, but it suggested that States adopt a program of short-term aid and warned them not to "insert benefit provisions in excess of collections in their laws." 39/ The Committee said that UC should pay a cash benefit to a jobless unemployed industrial worker who was ordinarily steadily employed "for a limited period during which there is expectation that he soon will be reemployed." It continued: "Normally the insured worker will return to his old job or find other work

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37/ For example, in January 1934, most "totally unemployed" workers in Massachusetts (excluding those temporarily employed by government programs) had been out of work for a year or more--62 percent of the unemployed men and 54 percent of unemployed women. Further, 45 percent of the jobless men and 35 percent of the women had not worked for 2 or more years. CRS Report 83-15 E. p. 20.

38/ Senate Finance Committee, Economic Security Act, hearings. p. 229.

39/ Ibid., p. 1327.

before his right to benefits is exhausted. If he does not find work, we recommend that his further period of unemployment should be met by a work benefit." 40/

The actuary of the Committee said that only from 12 to 15 weeks of benefits (depending upon length of a waiting period) could be financed with a payroll tax rate of 3 percent, and in the early years of the program States provided 15 or 16 weeks of benefits. 41/ Duration of regular benefits has gradually increased and today is 26 weeks in all States except Washington and Massachusetts, where it is 30 weeks, and Puerto Rico, where it is 20 weeks. In times of recession, Congress has chosen to provide extended cash benefits, partially or fully federally funded, rather than a Federal "work benefit" to those still unemployed at the expiration of regular benefits. However, for the last several years it has made certain segments of the unemployed population eligible for job training programs.

40/ Ibid., p. 1321-22.

41/ Haber and Murray, p. 202.

VI. CONCLUSION

Benefit adequacy in the UC program can be measured in a number of ways, depending on how taxation of benefits and wages is taken into account and the period of time over which adequacy is evaluated. From the inception of the UC program, one commonly used standard has been that benefits should replace about 50 percent of before-tax, pre-unemployment full-time weekly wages. Different definitions of the tax treatment of the factors used in computing replacement rates make a difference in the rates, but the differences are not large and tend to affect high-wage workers more than low-wage workers.

The data show that State benefit formulas generally provide average-wage workers with replacement of about 50 percent of lost pre-tax weekly wages, but the rates range among the States from 35 percent to 65 percent. Table 5.8 summarizes the findings of this chapter with regard to the adequacy of wage replacement rates. It shows the number of States that pay "adequate" benefits according to the two different criteria for measuring adequacy used in this chapter: (1) 50 percent of pre-tax weekly wages, and (2) a "needs-based" measure, which is the percent of pre-unemployment wages required to meet a family's nondeferrable expenses as defined by Vickery. The first measure is relative and judges benefits adequate if they equal 50 percent of a jobless worker's pre-unemployment, pre-tax weekly wages. The second measure assesses adequacy on an absolute basis. It deems benefits adequate if they equal the proportion of pre-unemployment earnings required to cover nondeferrable living expenses of workers at different pre-unemployment wage levels. Table 5.8

refers to this as the "needs-based" measure. Although the 50 percent adequacy standard has been accepted since the start of the program, and the needs-based standards devised by Vickery are the best such data available, these standards are just approximations of adequacy. Replacement rates that are within a few percentage points of these standards are probably generally adequate.

The table shows the number of States meeting each of these criteria for workers at three different wage levels: low-wage workers, workers earning the average wage in the State, and high-wage workers. The data show that, for low-wage workers, 49 of the 53 jurisdictions pay adequate benefits according to the criterion that benefits should be at least 50 percent of pre-unemployment wages, but only 6 jurisdictions pay adequate benefits according to the needs-based adequacy measure. For average-wage workers, 34 jurisdictions meet the 50 percent adequacy measure, but only 14 meet the needs-based criterion. No jurisdiction meets either adequacy criterion for high-wage workers. More States pay adequate benefits according to the needs-based measure for average-wage workers than for low-wage workers because the percent of pre-unemployment wages required to meet nondeferrable expenses is higher for low-wage workers than for those with average wages. A family supported by one low-wage worker requires 65 percent of the pre-unemployment wage to meet nondeferrable expenses, and only 7 jurisdictions have replacement rates that high. However, a family supported by an average-wage worker can meet their nondeferrable expenses with 54 percent of the pre-unemployment wage, and 14 jurisdictions have at least a 54 percent replacement rate. These data represent replacement rates for a period of time in which the worker receives UC benefits but has no earnings, and they do not take into account the earnings of another family member.

TABLE 5.8. Number of States Providing "Adequate" Weekly Pre-Tax Replacement Rates a/ and Replacement Rate Ranges Across Jurisdictions
(total number of jurisdictions = 53)

Adequacy criterion	Wage level of worker Low b/	 State average c/	 High d/
	Number of States		
50 percent of pre-tax wage........................	49	34	0
Needs-based e/......................	6	14	0
Weekly replacement rate range, all jurisdictions......................	40%-73%	35%-65%	14%-33%

a/ Rates are based on pre-tax UC benefits and pre-tax usual earnings.

b/ Weekly equivalent of $11,440 ($5.50 per hour).

c/ Average 1986 wage in covered employment in each jurisdiction.

d/ Weekly equivalent of $44,812 (four times the four-person poverty threshold).

e/ Vickery's criteria, based on proportion of income required for nondeferrable expenses: 65 percent for low-middle earners; 54 percent for middle-age earners; 45 percent for middle-high wage earners.

Income from UC and earnings may be evaluated over a longer period of time than a week or than a single spell of unemployment. For example, evaluation of earnings lost over a year in which a worker experiences a spell of unemployment but in which he or she is otherwise employed provides a different perspective on the extent of hardship a spell of unemployment may cause. The data indicate that an average-wage worker with a spell of unemployment of about the average length (13 to 15 weeks) experiences a reduction in annual earned income of about 10 to 17 percent, depending on the State and assuming that the unemployed worker is the only family wage earner (table 5.3).

A controversial issue in the UC program is provision of benefits to "secondary" family wage earners. When the program was designed in 1935, the typical unemployed worker was the sole family wage-earner. The growth of married-couple families in which both spouses work has led to criticism of the program for providing overly generous benefits to workers who have other ongoing means of support. Taxation of all UC benefits, which became effective on January 1, 1987, as a result of the Tax Reform Act of 1986, has diminished this concern by taxing benefits according to total family income. Building a means test into the benefit formulas would be the only way to directly confront this issue, but this would undermine the social insurance premise of the program and could result in subsidization of benefits to higher-wage (primary) workers by lower-wage (secondary) workers.

Benefit adequacy must be balanced against preservation of work incentives, but the precise line between the two is not easily drawn. The balance is most difficult to strike for lower-wage workers, who normally have little discretionary income that can be foregone without hardship. When benefit adequacy is evaluated from the standpoint of meeting basic, nondeferrable expenses, benefits can nearly equal potential earnings for workers who normally earn low wages, making the margin between adequate benefits and benefits that undermine work incentives quite narrow.

Most of the research on work incentives and labor supply indicates that the program reduces the labor supply of some workers and may have other effects on the size and composition of the labor force. However, this is not surprising because the program is intended to reduce the cost of unemployment by replacing a portion of the worker's wages. The evidence on whether income support from the UC program allows unemployed workers to take the time to find the most suitable and stable employment at the best wage is mixed. Overall, many researchers conclude that the trade-off between adequacy and work disincentives is ultimately a political decision.

CHAPTER 6: IS THE EXTENDED BENEFITS PROGRAM WELL TARGETED?*

The Unemployment Compensation (UC) system established in the Social Security Act of 1935 created a program designed to address the needs of workers experiencing short-term, temporary periods of unemployment. At the Senate Finance Committee's hearings in 1935, Secretary of Labor Frances Perkins testified that States were expected to provide UC benefits for "limited periods . . . 15 weeks, or perhaps 26 weeks." After periods of "extreme depressions" when people were unemployed more than 6 months, she said, the Federal Government should provide "a supplemental system of works benefits which would be available after cash benefits had been exhausted." 1/ The Report of the Committee on Economic Security noted that European systems generally permitted a jobless person to draw extended benefits, fully funded by the government, on a means-tested basis after exhausting regular benefits. It rejected such extended cash benefits as "far less desirable" than work benefits. 2/ However, such a work benefits program for long-term unemployed workers has never been implemented by Congress in response to recessionary economic conditions.

1/ U.S. Congress. Senate. Committee on Finance. The Economic Security Act of 1935 (S. 1130). Committee Print, 74th Congress. Washington, U.S. Govt. Print. Off. p. 119-120.

2/ Ibid., p. 1319.

* This chapter was prepared by Celinda Franco of the Education and Public Welfare Division, Congressional Research Service.

Instead, Congress has responded to significant increases in the number of unemployed workers who have exhausted their regular UC benefits during recessions by enacting programs to prolong benefits. The first program of prolonged benefits was enacted in 1958, and in 1970 a permanent extended benefit (EB) program was enacted. Thereafter, additional emergency programs continued benefits for exhaustees of the EB program. At the height of the 1975 recession, the maximum duration of all UC programs combined was 65 weeks (1 and 1/4 years). 3/

During periods of high unemployment in a State, claimants of the UC program who exhaust their regular benefits may automatically be entitled to an extension of benefits under the permanent EB program. When activated, the EB program increases the claimant's UC entitlement from the regular 26 weeks up to a maximum of 39 weeks. The program's weekly benefit equals the amount received by the claimant under the regular State UC program. Unlike the regular UC program, the EB program includes federally mandated guidelines for determining what constitutes suitable employment. Federal law specifies that an EB claimant cannot refuse any work within his/her capabilities unless there is evidence of good prospects for obtaining work in the customary occupation in a reasonably short time.

In August 1988 no State had sufficiently high insured unemployment to qualify for EB, although some States have experienced high levels of total unemployment. This chapter examines the current EB program, the changes in the triggering mechanism used to activate the EB program since its inception, and proposals for alternative measures to activate the EB program.

3/ For a more comprehensive description of past benefit extension programs, see appendix C.

I. TRIGGERS

The permanent Federal-State EB program created by the Extended Unemployment Compensation Act of 1970 (P.L. 91-373) is designed to activate, or "trigger", on or off automatically as changes in the economy cause unemployment rates to rise during recessions and decline during periods of growth. A trigger is a mechanism used to activate the EB program and automatically determines the beginning or end of a period of State eligibility to offer extended benefits when certain specific conditions are met. The EB program relies on the insured unemployment rate (IUR) as a program trigger. The use of State triggers allows for targeting of benefits only to States experiencing high levels of insured unemployment. When the program began in 1970, it also had a national trigger.

A. Trigger Levels Before 1981

1. National Trigger

The national trigger, no longer in force, made the program available in every State to qualified claimants whenever the seasonally adjusted national IUR was at least 4.5 percent for 3 consecutive months. States were also required to implement a trigger mechanism independent of the national trigger that would automatically trigger on whenever the State's IUR averaged 4.0 percent or more for 13 consecutive weeks and was at least 20 percent higher than the average IUR for the corresponding 13-week period in the preceding 2 years. 4/ EB triggered off when the specified conditions no longer existed, but once an EB period triggered on at the national or State level, it was required to remain in effect for at least 13 weeks.

Claimants exhausting regular benefits during an EB period were eligible for up to 13 additional weeks of UC benefits or the equivalent of half of the maximum number of weeks of regular benefits received in the State, whichever was less. The maximum duration of benefits allowed (regular plus EB) was limited to 39 weeks.

The Omnibus Budget Reconciliation Act (OBRA) of 1981 included amendments that eliminated the national trigger for the EB program. After elimination of the national trigger, extended benefits were payable only in States with IURs at the level required by Federal law.

2. State Triggers

When first enacted, a State trigger was activated whenever a State's IUR reached or exceeded 4 percent or more for 13 consecutive weeks and the IUR was at least 120 percent of the average IURs for the same 13-week periods in each of the preceding 2 years (the 120-percent requirement). From October 1972 through the end of 1976, 8 bills were enacted temporarily suspending the 120-percent requirement of the permanent EB program. 5/ One of the bills, the Federal Supplemental Benefits Act (P.L. 93-572), changed the State trigger

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4/ The current EB program activates in a State under the triggering mechanism modified by OBRA in 1981. The 13-week average IUR is calculated as the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first four of the last six completed calendar quarters.

5/ Unemployment Compensation: Final Report, National Commission on Unemployment Compensation. U.S. Print. Off., Washington, D.C. 1980. p. 59.

requirement from 4.5 to 4.0 percent in addition to waiving the 120-percent requirement between December 31, 1974 and December 31, 1976.

With enactment of the Unemployment Compensation Amendments of 1976 (P.L. 94-566), a permanent mechanism was created allowing States to become eligible for EB without having to satisfy both trigger requirements. The program's requirements were amended so that the 120-percent requirement could be waived whenever the IUR in a State reached 5.0 percent.

B. Current EB Program Triggers

The Omnibus Budget Reconciliation Act (OBRA) of 1981 (P.L. 97-35) eliminated the national trigger and further modified the State triggers. The OBRA amendments raised the State IUR trigger level from 4.0 to 5.0 percent in the prior 13-week period, maintained the 120-percent requirement, and began the exclusion of EB claims data from the calculation of the IUR for EB trigger purposes. In addition, OBRA gave States the option of setting the automatic trigger when their IURs reach 6.0 percent regardless of the IUR in previous years (the 120-percent requirement). These amendments are still in effect. All but 13 States have implemented the 6.0-percent automatic trigger. Those 13 States must meet both the 5.0-percent trigger and the 120-percent requirement in order to operate the EB program.

C. Current Status and Recent Trends

1. Program Participation

Expenditures for the EB program have fluctuated greatly since the program was authorized in 1970. Table 6.1 shows benefits payments by Federal and State governments since 1971 and total annual EB expenditures. It demonstrates the increase in total EB expenditures during both the 1973-75 and 1981-82 recessions as the economy turned down and the sharp decline in EB expenditures as the economy recovered. However, as shown in chart 6.1, which graphs expenditures for EB in constant dollars, there has been a marked decline in the program's real spending during the more recent 1981-82 recession. This difference is particularly important because the unemployment rate was considerably higher during the 1981-82 recession than during the 1973-75 recession. The significance of this drop in the availability of EB highlights the stringency of the unemployment triggering requirements for States under the current EB program.

The number of EB claimants exhausting their entitlements has varied greatly over the years since the program began (see chart 6.2). The exhaustion ratio for EB, calculated by the number of claimants exhausting benefits as a percent of the number of first claimants of EB, was 0.50 in 1971. As indicated in chart 2.26 (chapter 2), the exhaustion ratio ranged from 0.50 to 0.74 of first claims for EB between 1971 and 1982. However, the 1984 exhaustion ratio was triple the levels of the early 1970s, reaching a high of 1.58. In 1985, the number of exhaustions continued to exceed EB first payments, as indicated by the ratio of 1.34. This high ratio is largely the result of a reduction in the availability of the program due to IUR trigger levels that are difficult to reach, and the inability of States with EB to continue to meet the trigger requirements.

The trend in the number of EB exhaustees indicates the significance of the 1981 OBRA restrictions on the size of the EB program. As shown in charts 6.2 and 2.26, during the 1973-75 recession the number of EB claimants exhausting their benefits climbed to a record high of 2.5 million. However, during the 1981-82 recession the number of EB exhaustions was only about half what it was in the prior recession period, with exhaustions and first payments of only 1.2 million and 2.2 million, respectively.

TABLE 6.1. Federal-State Extended Benefits
(in millions of dollars)

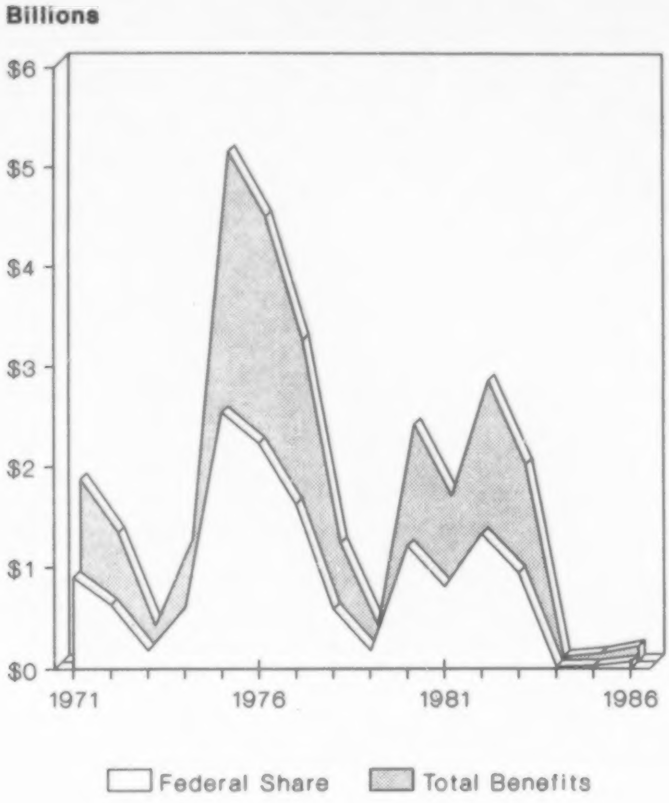
	Total extended benefits paid	Federal share of extended benefits paid a/	State share extended benefits paid b/
1971............	664	332	332
1972............	482	241	241
1973............	143	72	71
1974............	539	273	266
1975............	2,494	1,246	1,247
1976............	2,296	1,157	1,139
1977............	1,764	896	868
1978............	692	350	342
1979............	238	120	118
1980............	1,763	906	857
1981............	1,357	672	685
1982............	2,455	1,165	1,290
1983............	1,767	859	909
1984............	41	18	22
1985............	75	27	48
1986............	147	69	78

a/ Includes State share of regular benefits in excess of 26 weeks.

b/ Where the Federal share exceeds the State share, the excess will be due to payments made to (1) unemployed workers of reimbursable employers, (2) claimants with wage credits under interstate wage combining, and (3) claimants with joint wage credits under unemployment compensation programs for Federal employees (UCFE) and for ex-service members (UCX).

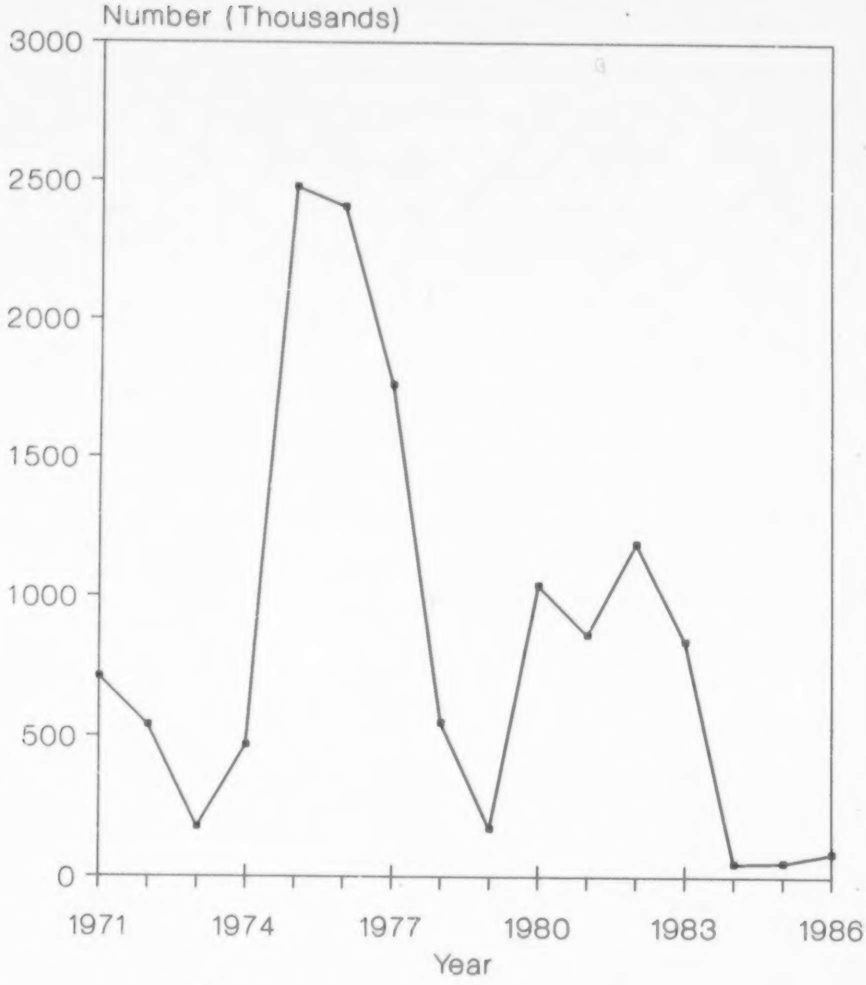
Source: U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Service. ET Handbook No. 394, The Unemployment Insurance Financial Data Handbook 1938-1986. January 1988.

Chart 6.1: Federal-State Extended Benefits In Billions of Constant 1986 Dollars, 1971-1986



Source: Chart prepared by CRS based on data from DoL.

Chart 6.2: Claimants Exhausting Extended Benefits, 1971-1986



Source: Chart prepared by CRS based on data from DoL.

2. Differentials Among States

Table 6.2 shows the 13-week average IURs by State for each year since 1983 and the degree to which each State meets the 120-percent requirement in 1988. The average IURs vary widely among the States, in 1988 ranging from 5.89 in Alaska to 0.42 in New Hampshire. The column showing the 1988 status of meeting the second trigger requirement (having an IUR that is 120 percent of the IUR during the prior 2 years) indicates the difficulties States face in satisfying this requirement when the economy is expanding, with Michigan at 106 percent being the closest to reaching the 120-percent level.

In addition, the low participation rates for EB in recent years also raise the question of how well the IUR as the EB trigger mechanism reflects long-term unemployment in States. Burtless' analysis of the decline in the IUR during the 1980s indicates that the IUR no longer accurately reflects labor market conditions (see chapter 4). When a State's total unemployment rate (TUR) is compared with its IUR, the differences between the two measures can be significant. For example, in 1987 Texas had an IUR of 2.78 percent and a TUR of 8.4 percent, with even higher unemployment levels in various regions within the State. 6/ The reliance on a State's IUR as a trigger for EB limits the availability of the program for States experiencing rising unemployment levels and increases in long-term unemployment.

6/ U.S. Department of Labor. Bureau of Labor Statistics. Employment and Earnings. May 1988. p. 149.

TABLE 6.2. State Extended Benefit Indicators for the First Week in January 1983 Through 1988, and EB Benefit Weeks for January 1988

	13-week insured unemployment rate						1988 IUR as percent of prior 2 years	EB weeks
	1983	1984	1985	1986	1987	1988		
Alabama..............	6.00	3.79	3.69	3.16	3.25	2.23	69	0
Alaska...............	6.89	6.10	6.18	6.81	7.45	5.89	82	0
Arizona..............	4.36	2.19	1.54	1.61	1.86	1.59	91	0
Arkansas.............	6.08	3.75	3.93	3.82	3.99	3.29	84	0
California...........	5.32	3.86	3.36	3.49	3.25	2.61	77	0
Colorado.............	3.45	2.60	1.91	2.12	2.52	1.98	84	0
Connecticut..........	3.42	2.06	1.54	1.61	1.40	1.04	69	0
Delaware.............	3.17	2.01	1.49	1.26	1.20	0.76	70	0
District of Columbia..	3.82	2.55	2.09	1.99	1.97	1.68	84	0
Florida..............	2.58	1.48	1.32	1.35	1.23	1.00	77	0
Georgia..............	3.46	1.91	1.84	1.65	1.71	1.27	75	0
Hawaii...............	3.58	3.13	3.26	2.21	1.86	1.54	75	0
Idaho................	6.81	4.64	3.92	4.27	4.33	3.33	77	0
Illinois.............	5.84	3.61	2.94	2.94	2.66	2.15	76	0
Indiana..............	5.18	2.63	2.46	2.08	2.06	1.36	65	0
Iowa.................	4.25	2.63	2.74	2.91	2.82	1.69	58	0
Kansas...............	4.26	2.47	2.21	2.49	2.51	2.00	80	0
Kentucky.............	5.92	3.59	3.12	3.19	2.68	2.02	68	0
Louisiana............	5.36	4.22	3.89	4.42	5.32	3.13	64	0
Maine................	4.42	3.78	3.41	2.95	2.20	1.67	64	0
Maryland.............	4.26	2.69	2.10	2.09	1.76	1.40	72	0
Massachusetts........	3.93	2.48	2.14	2.28	1.95	1.55	73	0
Michigan.............	7.43	3.39	3.37	2.90	3.12	3.17	106	0
Minnesota............	4.05	2.56	2.29	2.61	2.21	1.87	77	0
Mississippi..........	6.19	3.63	3.69	3.27	3.85	2.48	69	0
Missouri.............	4.32	2.84	2.36	2.33	2.49	2.07	82	0
Montana..............	4.89	4.26	3.86	3.73	3.44	2.79	79	0
Nebraska.............	1.77	2.20	1.84	2.39	1.90	1.37	63	0
Nevada...............	4.92	3.27	2.81	2.88	2.56	2.08	72	0
New Hampshire........	2.87	1.45	1.06	0.86	0.71	0.42	53	0
New Jersey...........	4.24	3.11	2.79	2.53	2.09	1.74	72	0
New Mexico...........	4.07	3.22	2.75	2.64	3.31	2.30	77	0
New York.............	3.85	3.08	2.70	2.52	2.28	1.92	80	0
North Carolina.......	4.58	2.21	2.48	2.02	1.74	1.20	63	0
North Dakota.........	3.20	2.67	2.65	2.84	2.70	2.15	77	0

TABLE 6.2. State Extended Benefit Indicators for the First Week in January 1983 Through 1988, and EB Benefit Weeks for January 1988—Continued

	13-week insured unemployment rate						1988 IUR as percent of prior 2 years	EB weeks
	1983	1984	1985	1986	1987	1988		
Ohio	6.06	3.21	3.06	2.95	2.65	2.11	75	0
Oklahoma	4.06	2.09	2.14	2.36	2.90	1.87	71	0
Oregon	6.63	4.81	4.31	4.51	3.97	3.17	74	0
Pennsylvania	7.30	4.73	4.04	3.80	3.29	2.38	67	0
Puerto Rico	8.96	6.63	6.53	6.69	5.46	4.64	76	0
Rhode Island	5.24	3.53	3.17	2.99	2.55	2.04	73	0
South Carolina	5.63	2.58	2.98	2.59	2.10	1.50	63	0
South Dakota	2.08	1.10	1.23	1.54	1.18	1.20	88	0
Tennessee	4.53	2.79	2.76	2.61	2.34	1.95	78	0
Texas	2.85	1.88	1.50	1.72	2.78	1.91	84	0
Utah	4.83	2.75	2.54	2.27	2.39	1.62	69	0
Vermont	4.99	3.38	2.86	2.66	2.05	1.40	63	0
Virgin Islands	4.18	1.23	1.26	2.70	1.50	0.78	78	0
Virginia	2.30	3.67	3.71	1.06	0.94	0.75	35	0
Washington	6.60	5.03	4.41	4.30	3.92	3.45	83	0
West Virginia	8.59	5.55	5.66	4.19	3.79	2.78	69	0
Wisconsin	5.74	3.93	3.34	3.34	2.91	2.24	71	0
Wyoming	4.54	3.10	1.68	2.48	3.98	2.28	71	0

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. 1988 Edition. Committee Print, 100th Cong., 2d Sess. Washington, U.S. Govt. Print Off., 1988. p. 339-340.

3. Projected Effects of the Next Recession on EB

For the purposes of this study, the Congressional Research Service (CRS) had a recession scenario and the economic assumptions of the President's FY 1989 budget analyzed by a U.S. Department of Labor (DoL) model to determine the effects these scenarios would have on the EB program.

The Unemployment Insurance Service (UIS) State Loan Model is a trust fund forecasting model used by DoL to make estimates for specific economic forecasts. The model produces fiscal year estimates of aggregate State trust fund balances, loans and repayments, loan balances, reduced FUTA credits, interest earnings, and interest paid. The model can also provide State-by-State estimates, but with less reliability than for national estimates. 7/

The specific IURs and TURs used to produce the model's results for the two scenarios are provided in table 6.3. The program estimates for both scenarios are based on annual average IURs and TURs.

Under the Administration's economic projections, which assume no recession for the period studied, only one State would trigger the EB program in each year (see table 6.4). After 1990 the total number of weeks claimed and the benefits paid by the EB program would decline by half and remain at that level for the remainder of the study period.

7/ U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Service, "UIS State Loan Model," fact sheet. Sept. 21, 1987.

TABLE 6.3. Unemployment Rates Used in Two Economic Scenarios

Average Total Unemployment Rate (TUR)

	Administration a/	Recession in 1990 b/
1987	6.43	6.43
1988	5.90	5.73
1989	5.75	5.28
1990	5.53	5.72
1991	5.43	6.99
1992	5.33	5.90
1993	5.30	5.18

Average Insured Unemployment Rate (IUR)

	Administration a/	Recession in 1990 b/
1987	2.53	2.53
1988	2.18	2.21
1989	2.18	1.97
1990	2.05	2.24
1991	2.00	2.90
1992	1.93	2.03
1993	1.91	1.77

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a/ Forecast for the President's FY 1989 budget.

b/ Alternative recession scenario in use in the Data Resources Incorporated economic forecasting model in Mar. 1988.

TABLE 6.4. **Extended Benefits by State**

	Administration	Recession in 1990
Number of States on EB		
1988	1	1
1989	1	1
1990	1	2
1991	1	11
1992	1	1
1993	1	1
Total weeks claimed of EB (in millions)		
1988	0.047	0.048
1989	0.047	0.023
1990	0.024	0.114
1991	0.024	1.829
1992	0.023	0.024
1993	0.024	0.021
Total yearly benefits (in millions)		
1988	$ 7.436	$ 7.524
1989	7.707	3.661
1990	4.090	15.277
1991	4.280	286.277
1992	4.419	4.443
1993	4.678	4.145

Source: Estimates from DoL model of State unemployment insurance trust fund accounts.

The recession predicted by the second scenario triggers only one State on to EB in each year except 1990, when the assumptions would trigger two States, and 1991, when 11 States would be on EB. These results indicate the extent to which the current EB triggers are responsive to changes in the economy. Both sets of economic projections result in similar numbers of States on EB, numbers of weeks claimed, and total benefits paid except for the recession year and the year thereafter. The rapid drop in the number of States triggered on to EB in the year following the 1990 recession scenario reflects how participation in the current program is limited to short durations.

II. INTRASTATE DIFFERENTIALS IN UNEMPLOYMENT

Unemployment rates vary widely within States as well as among States. In the development of UC policy, there is a perpetual concern about how accurately unemployment in certain substate regions is reflected by aggregate data collected at the State level. (A similar logic can extend this concern to apply to the variation among States.) For macroeconomic policy, the development of a national trigger focuses on business cycles and economic downturns at the national level. However, the national trigger was eliminated because it provided EB in all States without regard to the level of unemployment in any one State. Proponents of State triggers argue that additional benefits should not be paid in States with strong economies and low unemployment rates, as might be the case during a nationally triggered EB period.

Since local labor markets can often experience persistent periods of high unemployment within a low-unemployment State, different parts of States that have varied economies may experience the impact of recessions at different points in an economic cycle and for varying lengths of time. Proposals to narrow the geographic determination of the EB trigger mechanism are periodically advanced to allow the availability of EB to be determined by conditions at the local or regional level within a State. This type of substate trigger mechanism would allow EB to be provided to long-term unemployed workers in a particular area, regardless of economic conditions in other areas in a State.

A. Policy Concerns

Three major policy concerns dominate the debate over the use of substate UC data for triggering the EB program. Although a system for collecting State-prepared State and local area labor force data estimates based on a 6-month moving average currently exists, these estimates are less reliable than the annual Current Population Survey (CPS) data. [8] First, the computation of unemployment statistics at local or regional levels within States could be expensive. Adjustments for seasonal variations or dominant industries in substate areas to reflect the state of the economy accurately could require costly measurement techniques and additional administrative expenses. Second, there is no consensus on the appropriate definition of substate areas, and any method of subdivision would be viewed as arbitrary in some States. The inequitable treatment of similar types of workers because of residence or workplace location could raise troublesome issues of equity and confuse the intent of a State's social welfare goals. Finally, the method used to collect substate data must include a statistical technique that can make all data comparable among all the 53 State programs, but an adequate method has not been developed.

B. The DoL Research Study on Substate Data Collection

Congressional interest in the reliability of substate unemployment data collection prompted a request to DoL to gather information on this issue. DoL entered into a contract with Mathematica Policy Research, Inc. in September

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[8] State estimates are less reliable because of differences in State UC laws, the limitations of the UC-based estimating methods used, and errors in the UC data. DoL applies correction factors to adjust the data for State-law variations and makes proportional adjustments to the substate estimates to ensure that the sum of these estimates add to State employment and unemployment totals.

1987 to study the practicality of States' collecting and using substate unemployment statistics. The Unemployment Insurance Substate Area Trigger Feasibility study is to include a survey of all the States to obtain responses about the current administrative and structural capacity to collect and use substate data. In addition, the project is to establish a pilot study in one State where the implementation of a substate data collection process will be developed and evaluated. The final report of the project's findings should be submitted to DoL in March 1989.

C. State Agencies' Views on Substate Triggers

Generally, States are concerned with the complexity of defining substate areas and implementing differential benefit levels for the unemployed by substate areas. One problem lies in deciding the locale that would determine a claimant's eligibility: should it be the place of claims filing, the place of employment, or the place of residence? Differential treatment of neighboring areas within States that are experiencing different measured unemployment rates could create political tension and competition.

D. Administrative and Budgetary Implications of Substate Triggers

It is clear that substate trigger data would require much more detailed information collection. The use of substate triggers would introduce more complexity into employer tax collection and assessment. In addition, substate data triggers could set up plant relocation incentives within a State, in which employers anticipating production changes might gain an advantage by relocating to an area of a State where lower unemployment could be expected. This could add to competition among areas within a State for business location decisions.

for policy development. See chapter 5 for a discussion of benefit adequacy theories and research.

The debate over the work disincentive issue has been the focus of extensive empirical research by economists throughout much of the program's history. Early studies of the labor supply effects of UC during periods of high employment found that the system increased the unemployment rate by between 0.1 and 1.0 percentage points.

If benefits are available through the UC system for long durations, the disincentive for the unemployed worker to return to work is strengthened, although the intent of the program is to provide income maintenance for job search activities during periods when jobs are difficult to find. The work disincentive problem is particularly important in the formulation of EB policies and in the discussion of the labor supply effects of the UC program. Much of the empirical research on work disincentives attempts to quantify the effects of longer durations on the unemployed worker's job search efforts. 9/ However, the limited longitudinal data presently available for analysis of the actual effects of benefit duration on an unemployed individual's work search limit the applicability of the analysis for policy development.

9/ For the most recent report of research on duration effects of UC benefits, see: Moffitt, Robert. The Effect of the Duration of Unemployment Benefits on Work Incentives: An Analysis of Four Data Sets. Princeton, N.J.: Mathematica Policy Research, Inc, 1985. 133 p.

IV. LEGISLATIVE PROPOSALS

Modification of the EB program has been a major legislative action taken by Congress in the past to relieve the income effects of long-term unemployment during a recession. Although the national economy is currently not in recession, new legislation has been introduced during the 100th Congress that would amend the existing EB program.

Many of these bills would alter the EB trigger mechanism in an effort to ease the requirements of the program. The Targeted Unemployment Compensation Benefits Act of 1987 (H.R. 19), would replace the duration of EB from 13 weeks to maximum duration periods of varying lengths of 5 to 25 weeks, determined by a State's TUR in a prior 12-week period. Thus, if a State's TUR, in a prior 12-week period, is 9 percent, 5 weeks would be the maximum duration. As the TUR increased to 13 percent, the maximum duration period would increase to 25 weeks. This legislation provides for the amount of EB payments to increase from 50 to 100 percent of regular UC benefits. In addition, the legislation would require an increase in Federal funding varying from 30 to 70 percent determined by the level of unemployment in a State. The bill would allow States to require recipients to participate in an intensive 1-week job search program provided by the employment service (ES).

The Extended Unemployment Compensation Act of 1987 (S. 287) would provide EB for durations varying from 7 to 28 weeks, the period to be determined by a State's IUR for the 13-week period ending with the week of determination and the average IUR for comparable 13-week periods in the prior 6 years. The bill would set the initial duration period at 6 weeks, and reevaluate the duration period after 3 weeks if a State's IUR indicator had changed the duration period initially provided. Determination of higher benefit levels would be based on average IURs during 13-week periods in the prior 6 years. Federal contributions for benefit payments would range from 60 to 90 percent and would be determined by the benefit duration period a particular State qualifies to receive. The bill provides that existing job search requirements could be modified if the labor market conditions in a State were such that it was not likely that employment would result from work search. The bill also would require that DoL conduct a study on alternative labor market measures that might be more accurate and more readily available than the IUR for triggering EB in all States.

The Extended Unemployment Insurance Reform Act of 1987 (H.R. 2676) attempts to target EB to States with high unemployment by amending the program's trigger requirements. Title I would replace the 13-week maximum duration of EB with maximum durations of varying lengths determined by either the State's seasonally adjusted IUR or TUR. The bill would provide for durations ranging from 10 weeks in States with a 4-percent IUR to 30 weeks in States with an 8-percent IUR. In addition, the legislation would require increased Federal responsibility for a larger share of the funding of benefits, varying from 50 to 90 percent with the level of unemployment in a State. Title II of H.R. 2676 would provide for: (1) the establishment of a demonstration project that triggers EB in substate areas for periods determined by the IUR of the area; and (2) the development of a model for providing training programs for UC recipients. Title III would provide (in no more than 10 States) for self-employment allowances for regular UC program recipients.

H.R. 4595 and S. 2175 would provide an additional trigger for EB based on the exhaustion rate of regular UC claimants as an option for States with high unemployment levels. If the exhaustion rate exceeded 25 percent in a prior 12-week period, a State could activate the EB program. The exhaustion rate would be determined by dividing the number of exhaustees in a particular week by the number of individuals receiving their first week of benefits for the current benefit year 26 weeks before.

Legislative proposals to amend the existing EB program focus on altering the trigger mechanism. While there are clearly concerns about how well the IUR trigger responds to high unemployment and long-term unemployment within States, the use of the TUR as an alternative trigger is also problematic. Because the TUR is based on a national sample population, the accuracy of the TUR in States with small populations is questionable. However, since there is no other more reliable measure of unemployment statistics, most of the legislative proposals give States the option of selecting between the IUR and TUR as the EB trigger. Thus, the problems associated with the mismeasure of unemployment are not eliminated by these proposals.

V. CONCLUSIONS

The ability to offer a second line of protection against the effects of long-term unemployment through the EB program has been curtailed during the 1980s. It is much harder for a State to activate the EB program because the national trigger has been eliminated and because the program's trigger mechanism continues to rely on the IUR, despite its divergence from the TUR. Assistance available during the 1981-82 recession through EB programs was relatively much smaller than assistance available through EB and temporary supplemental measures during the 1973-75 recession. In constant dollars, EB outlays were 48 percent lower in the latter recession despite higher unemployment rates. The cutback in aid reflects Congressional intent to target and restrict the EB program through legislation enacted in 1980 and 1981. However, there is some concern that the EB program now is so narrowly targeted that it can be activated only in States that suffer from severe recession.

CHAPTER 7. IS THE UNEMPLOYMENT COMPENSATION SYSTEM SOUNDLY FINANCED?*

A State's unemployment compensation (UC) program is supposed to be self-financed. States finance benefit expenditures by taxing their employers' payrolls, the revenues from which are deposited in trust with the U.S. Treasury. Although subject to certain Federal requirements for conformity, States by and large determine the financial requirements of their UC programs by establishing rules for eligibility and benefit amounts. If a State program runs out of funds, it may obtain Federal loans. Because of these arrangements, benefit financing raises policy issues internal to the UC system that are separate from, but related to, the larger questions of overall government expenditures, taxes, and budget deficits.

The Federal Government can decide on the affordability of UC benefits based on the program's estimated revenues and outlays for a particular year, the Government's overall fiscal posture, and competition from other spending priorities. However, the insurance nature of the UC system complicates such decisions by injecting the need for each State program to prepare financially to cover its own risk--that is, each State must obtain funds to cover its own residents' UC benefit payments.

The "funds" in this case derive from credits established in the Federal Unemployment Trust Fund on behalf of a State's program based on taxes paid by a

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* This chapter was prepared by Jim Storey of the Education and Public Welfare Division, Congressional Research Service.

State's employers. The "proper level" of these credits--that is, a level that would meet a standard for financial soundness--cannot be determined for more than a short period of time due to the impossibility of predicting long-term State unemployment levels. However, program reserves must be accumulated over long time periods to avoid excessive taxation of employers during any one year. Although a long-term standard of funding adequacy is needed in order to measure the sufficiency of the program's taxation, the unpredictability of long-term benefit payments has prevented a consensus from forming around any such standard.

As the 1973-1975 recession began to take its toll, the financing of UC became, and has since remained, a major policy issue. The Federal Government is concerned about the sums that States borrowed to pay benefits during recent recessions and about the time it took some States to pay off those loans. States, on the other hand, have complained about the manner in which Federal grants were made available for the purpose of administering UC.

Financing of benefit payments is different from that of program administration. Amounts paid for benefits are subtracted from the balances of the separate State accounts in the Unemployment Trust Fund. Each State account balance is increased by amounts collected in payroll taxes by the State from its employers. These tax payments are determined by a tax rate structure and a taxable wage base set by each State. If a State account becomes insolvent, the State may borrow Federal funds from the Federal Unemployment Account (FUA), in which case spending authority is transferred from FUA to the State's benefit account. Beginning in 1982, interest has been charged on these State loans; reductions in the standard 5.4 percent also apply under certain conditions as a means of compelling loan repayments.

Payment of program administration expenses is tied to Federal Unemployment Tax Act (FUTA) receipts. Since 1983, the net Federal tax paid by employers has been 0.8 percent of the first $7,000 of a covered employee's annual wages. The portion of this tax to be available for administrative expenses is credited to the Employment Security Administration Account (ESAA). Congress makes an annual appropriation of grants to States from this account. The grants are allocated among the States on the basis of the U.S. Department of Labor's (DoL's) estimates of each State's administrative requirements for the next fiscal year.

This chapter is divided into three parts. The first presents information on the status of State benefit accounts and assesses their future viability. The second discusses problems with the mechanism for funding State administrative expenses. The third discusses legislation related to benefit and administrative financing.

I. BENEFIT FINANCING NOW AND IN THE NEXT RECESSION

A. How Benefits Are Financed

Each State levies a tax on the payrolls of its employers to pay for UC benefits. The State establishes the taxable amount of employee annual wages and the tax rate structure. In order for a State to obtain the maximum credit against the Federal FUTA tax on its employers, the taxable wage base must be at least as high as the base to which the Federal tax applies ($7,000 since 1983). Taxable wage base levels range from $7,000 (in 17 States) to $21,100 in Alaska (see table 7.1). The taxable wage base is automatically adjusted for wage inflation in only 18 States. Two States (Colorado and Missouri) adjust the taxable wage base depending on the funding level in their trust fund accounts (see table 7.2).

States set their maximum tax schedules with a rate at least as high as 5.4 percent to take advantage of a Federal credit at that rate, but State tax rates cover a broad range above that level, reaching 10 percent or more in several States. All programs except Puerto Rico's adjust the tax rate applicable to a specific employer based on the employer's experience with unemployment. That is, the particular rate that applies to an employer's taxable payroll rises or falls depending on the amount of benefits a firm's former employees have drawn or on the firm's unemployment experience during some recent time period.

Most State laws automatically adjust minimum and/or maximum tax rates when fund balances rise or fall below certain levels. Such adjustments and the impact of experience rating yield actual average tax rates well below the maximum rates. In 1987, the average tax rate as a percent of taxable wages varied from 0.8 percent in New Hampshire to 5.4 percent in Puerto Rico. As a percent of all wages, the average tax rate ranged from 0.3 percent in New Hampshire to 2.4 percent in Alaska, Puerto Rico, and the Virgin Islands (see table 7.1).

TABLE 7.1. **Taxable Wage Base and Average Tax Rate by State**

		Average 1987 tax rate as percent of:	
State	1988 taxable wage base	Taxable wages	Total wages
Alabama	$ 8,000	1.7	0.8
Alaska	21,100	3.5	2.4
Arizona	7,000	1.4	0.5
Arkansas	7,500	2.8	1.2
California	7,000	2.5	0.9
Colorado	10,000	2.2	0.9
Connecticut	7,100	2.0	0.7
Delaware	8,500	3.0	1.1
District of Columbia	8,000	2.1	0.7
Florida	7,000	1.0	0.4
Georgia	7,500	1.6	0.6
Hawaii	8,700	1.7	1.2
Idaho	16,200	3.0	2.1
Illinois	9,000	4.0	1.5
Indiana	7,000	1.5	0.6
Iowa	11,000	2.9	1.6
Kansas	8,000	2.5	1.1
Kentucky	8,000	2.8	1.0
Louisiana	8,500	4.2	1.7
Maine	7,000	2.5	1.1
Maryland	7,000	1.7	0.5
Massachusetts	7,000	2.0	0.8
Michigan	9,500	5.2	2.0
Minnesota	11,700	2.5	1.2
Mississippi	7,000	1.5	0.6
Missouri	7,500	1.6	0.6
Montana	12,600	2.0	1.4
Nebraska	7,000	1.7	0.7
Nevada	12,100	1.6	0.9
New Hampshire	7,000	0.8	0.3
New Jersey	12,000	2.5	1.4
New Mexico	10,800	2.0	1.0
New York	7,000	3.1	0.9
North Carolina	10,100	0.9	0.5
North Dakota	11,000	4.0	2.3

TABLE 7.1. Taxable Wage Base and Average Tax Rate by State--Continued

State	1988 taxable wage base	Average 1987 tax rate as percent of:	
		Taxable wages	Total wages
Ohio	8,000	3.5	1.3
Oklahoma	9,100	2.6	1.1
Oregon	14,000	3.1	1.9
Pennsylvania	8,000	4.4	1.7
Puerto Rico	7,000	5.4	2.4
Rhode Island	12,000	3.8	2.1
South Carolina	7,000	2.0	0.9
South Dakota	7,000	1.4	0.7
Tennessee	7,000	1.4	0.6
Texas	8,000	2.4	0.9
Utah	13,200	1.7	1.0
Vermont	8,000	4.1	1.8
Virginia	7,000	1.1	0.4
Virgin Islands	14,500	3.1	2.4
Washington	15,100	4.0	2.3
West Virginia	8,000	4.5	1.9
Wisconsin	10,500	4.1	2.0
Wyoming	10,200	3.2	1.6

Source: U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. Committee Print, Mar. 24, 1988. p. 345.

TABLE 7.2. States with Automatic Adjustments to Taxable Wage Bases

State	Adjustment formula a/
Alaska	75 percent of AAW
Colorado	(b/)
Hawaii	100 percent c/ of AAW
Idaho	100 percent of AAW
Iowa	66-2/3 percent of AWW x 52 weeks
Minnesota	60 percent of AAW
Missouri	(d/
Montana	80 percent of AAW
Nevada	66-2/3 percent of AAW
New Jersey	100 percent of AWW x 28 weeks
New Mexico	65 percent of AAW
North Carolina	60 percent of AAW
North Dakota	70 percent of AAW
Oklahoma	50 percent of AAW
Oregon	80 percent of AAW
Rhode Island	70 percent of AAW
Utah	75 percent of AAW
Virgin Islands	100 percent of AAW
Washington	(e/)
Wyoming	55 percent of AAW

a/ "AAW" refers to the State's average annual wage for a prior 12-month period; "AWW" refers to the State's average weekly wage over a prior 12-month period.

b/ Colorado's taxable wage base of $10,000 is reduced to $9,000 if the State's trust fund account balance exceeds $350 million.

c/ The 100-percent factor is reduced to 75 percent or 50 percent if Hawaii's trust fund account balance exceeds certain target levels.

d/ Missouri's taxable wage base of $7,500 is raised by $500 when the State's trust fund account balance falls below $100 million. It is reduced by $500 when the balance rises above $250 million.

e/ Washington's taxable wage base is the lesser of: (1) 115 percent of the prior calendar year's taxable wage base rounded down to the nearest $100; or (2) 80 percent of the AAW for the calendar year before last, rounded down to the nearest amount divisible by $300.

Source: U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Service. Comparison of State Unemployment Insurance Laws. Wash., D.C., Jan. 3, 1988.

After collection, a State's unemployment revenues are deposited with the U.S. Treasury in return for a credit in the State's account in the Unemployment Trust Fund. The Federal Unemployment Tax Act requires States, as a condition of approval of their UC laws, to immediately pay all money received in their unemployment fund to the Secretary of the Treasury to the credit of the Unemployment Trust Fund (section 3304(a)(3) of the Internal Revenue Code).

As the State's unemployed workers claim and receive UC benefits, funds are transferred from the Federal Treasury to the State for payment, and the State's trust fund balance is reduced accordingly. 1/ Balances in the State accounts at the end of 1987 are shown in table 7.3.

If a State account becomes insolvent (i.e., if its balance is reduced to zero), the State may borrow funds from the Federal Government. In that case, the State account is credited with funds that are drawn against FUA. Interest on these loans must be paid directly by the State from State funds. As shown in table 7.4, only three States (Michigan, Pennsylvania, and Texas) had outstanding loans as of December 31, 1987.

When a State borrows funds for its UC benefit payments, interest charges are applied unless repayment is made by the end of the fiscal year in which the loan began. Interest rates are based on the rate being paid by the Federal Government on Unemployment Trust Fund assets but cannot exceed 10 percent. If the loan is still outstanding after 22 to 34 months, the net Federal unemployment tax paid by employers is increased, and the proceeds are applied to reduce the outstanding loan. (The exact timing depends on the date the loan was initiated.) The initial tax increase is a 0.3 percentage-point reduction in the 5.4-percent Federal credit to the State's employers for FUTA taxes. The

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1/ It should be remembered that the Federal funds to pay UC benefits are obtained from current Federal revenues and/or borrowing. Funds received in the past from State UC taxes are credited to State accounts, but the funds are used as needed to fund current Federal spending.

net tax rate rises further over time. Of the three States with unpaid loans, two (Michigan and Pennsylvania) currently have reductions in their Federal tax credits.

From a Federal fiscal viewpoint, loans made to State accounts allow greater benefit payments to be made than might otherwise occur during economic downturns, thereby increasing UC's countercyclical effects by adding to the Federal budget deficit. State loan repayments and interest payments during economic recovery, on the other hand, offset Federal spending and reduce the budget deficit. The net effect of these funds flows in fiscal year (FY) 1987 was to reduce the deficit by $1.9 billion.

TABLE 7.3. Changes in State Reserves During the 1980s

State	Net reserves a/ ($ millions)		Reserve ratio a/ (percent)		High cost rate a/	High cost multiple a/
	1979	1987	1979	1987	1987	1987
U.S., total	8,582	22,865	0.91	1.38	2.24	0.62
Alabama	118	504	0.98	2.46	2.17	1.13
Alaska	65	65	2.78	1.51	4.33	0.35
Arizona	226	426	2.36	2.03	2.48	0.82
Arkansas	24	101	0.37	0.93	2.69	0.35
California	2,738	4,017	2.51	1.85	2.34	0.79
Colorado	137	96	1.11	0.39	1.26	0.31
Connecticut	(267)	268	(b/)	0.84	3.29	0.26
Delaware	(30)	141	(b/)	2.79	2.70	1.03
District of Columbia	(44)	78	(b/)	0.97	1.84	0.53
Florida	665	1,745	2.13	2.49	1.84	1.35
Georgia	447	803	2.28	1.88	2.13	0.88
Hawaii	79	254	2.24	4.18	2.65	1.58
Idaho	93	126	3.20	2.92	3.17	0.92
Illinois	(460)	314	(b/)	0.35	2.67	0.13
Indiana	418	509	1.69	1.43	1.79	0.80
Iowa	155	283	1.45	2.03	2.62	0.77
Kansas	238	363	2.75	2.23	1.97	1.13
Kentucky	159	251	1.36	1.42	2.77	0.51
Louisiana	238	1	1.51	(c/)	3.08	(c/)
Maine	0	138	0.00	2.23	2.84	0.79
Maryland	273	556	1.83	1.88	2.19	0.86
Massachusetts	132	1,097	0.51	2.05	3.22	0.64
Michigan	112	25	0.25	0.04	3.69	0.01
Minnesota	70	155	0.41	0.52	1.96	0.26
Mississippi	231	370	3.47	3.52	1.97	1.79
Missouri	296	366	1.47	1.09	1.98	0.55
Montana	16	45	0.64	1.14	3.03	0.38
Nebraska	81	87	1.58	1.08	1.50	0.72
Nevada	95	236	2.31	3.07	2.75	1.12

See footnotes at end of table.

TABLE 7.3. Changes in State Reserves During the 1980s--Continued

	Net reserves a/ ($ millions)		Reserve ratio a/ (percent)		High cost rate a/	High cost multiple a/
State	1979	1987	1979	1987	1987	1987
New Hampshire	82	165	2.42	2.13	2.51	0.85
New Jersey	(507)	1,824	(b/)	2.76	3.33	0.83
New Mexico	80	120	2.14	1.81	1.64	1.11
New York	403	2,705	0.51	1.83	2.50	0.73
North Carolina	564	1,248	2.71	3.14	2.58	1.22
North Dakota	21	15	1.13	0.57	2.34	0.24
Ohio	513	214	1.02	0.29	3.09	0.09
Oklahoma	177	112	1.56	0.65	1.37	0.48
Oregon	320	427	3.00	2.79	3.21	0.87
Pennsylvania	(1,091)	117	(b/)	0.16	3.37	0.05
Puerto Rico	(33)	295	(b/)	5.09	4.21	1.21
Rhode Island	(96)	216	(b/)	3.44	4.37	0.79
South Carolina	195	215	1.96	1.19	2.89	0.41
South Dakota	16	43	0.95	1.67	1.04	1.61
Tennessee	264	506	1.63	1.79	2.18	0.82
Texas	396	(510)	0.65	(b/)	1.14	(b/)
Utah	67	161	1.43	1.94	2.02	0.96
Vermont	(21)	117	(b/)	3.71	3.25	1.14
Virginia	103	607	0.56	1.59	1.31	1.21
Virgin Islands	(7)	17	(b/)	4.66	2.28	2.04
Washington	297	655	1.66	2.41	4.21	0.57
West Virginia	39	65	0.56	0.77	4.00	0.19
Wisconsin	465	404	2.37	1.35	2.57	0.53
Wyoming	69	18	3.15	0.65	3.03	0.22

a/ Data are for end of calendar year. The reserve ratio is a State's trust fund balance at a point in time divided by its covered payroll for the prior 12 months. The high cost rate is the ratio of a State's benefit payments to its covered payroll for the 12-month period during which this ratio was at its highest level. The high cost multiple (sometimes called the "reserve ratio multiple") is a State's reserve ratio divided by its high cost rate.

b/ Account balance was in deficit.

c/ Less than 0.005.

Source: U.S. Department of Labor. Unemployment Insurance Financial Handbook. 1988. The 1987 ratios employ an estimate of each State's taxable wages developed by Wayne Vroman of the Urban Institute.

TABLE 7.4. UC Loan Balances Outstanding by State, 1978-1987

State a/	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	CY 1987
	Loan balance outstanding, end of year ($ millions)										
Alabama	44										
Arkansas	30	20	13	64	64	108					
Colorado						91	62				
Connecticut	448	410	371	321	271	281	197	104			
Delaware	47	47	44	46	54	44	35				
District of Columbia	64	71	66	51	41	64	44				
Hawaii	22										
Illinois	946	946	946	1,366	1,712	2,378	1,725	1,133	891	573	
Iowa					26	146	49				
Kentucky			52	96	149	79					
Louisiana					408	491	521	687			
Maine	36	36	36	31	21	4					
Massachusetts	265	265	232								
Michigan	624	624	540	1,015	1,804	2,265	1,658	1,292	1,287	1,121	953
Minnesota	172	152	2	114	246	350	217	86			
Missouri					90	90					
Montana	10	10	7		9	9					
New Jersey	735	695	652	613	521	425	322	213			
New York	336	336									
North Dakota						1			6		
Ohio			7	600	1,306	2,110	1,450	967	516	199	
Pennsylvania	1,187	1,222	1,388	1,568	1,764	2,659	2,004	1,330	896	592	588
Puerto Rico	89	89	89	81	66	51	36	22	2		
Rhode Island	102	103	121	112	102	90	76				
Texas						587	411		148	438	514

See footnotes at end of table.

TABLE 7.4. UC Loan Balances Outstanding by State, 1978-1987--Continued

State a/	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	CY 1987
	Loan balance outstanding, end of year ($ millions)										
Vermont	46	46	41	36	31	25	19	13			
Virgin Islands	11	11	7	5	3	4	4	3			
Washington	137										
West Virginia			16	100	105	266	308	249	217		
Wisconsin					276	612	595	389	127		
Totals b/	5,353	5,084	4,578	6,175	8,599	13,215	9,793	6,322	4,777	2,923	2,054

a/ States not listed did not have loans outstanding on any of the dates shown.

b/ Detail may not add to total due to rounding.

Source: U.S. Treasury Department. Federal Unemployment Account statements of receipts and expenditures, 1978-1987.

B. Public Policy Objectives and the State Benefit Accounts

1. The Conceptual Issue of Funding Adequacy

The more spending authority that a State accumulates in its benefit account relative to benefit payments, the less likely it will need to borrow Federal funds during an economic downturn. Conversely, the lower a State's balance relative to benefit outflow, the more likely it will need a loan when unemployment rises.

Before the initiation of interest charges in 1982, State account balances were of great concern to the Federal Government since States could borrow Federal funds interest-free when a recession drained the benefit accounts. However, now that interest is charged on loans to States, this concern has been mitigated somewhat. If a State underfunds its UC program, it now has to pay interest charges at the same rate at which Unemployment Trust Fund assets earn interest from the Federal Government.

Even though the required interest payments now render this issue less significant, there are still several reasons why it is in the Federal interest to minimize State borrowing. First, new loans increase the budget deficit and may conflict with policies to reduce the deficit. Second, if the deficit is constrained to a set level, then new loans restrict the Federal Government's options for spending on other priority programs. Third, the required repayments to which a State would become subject can mount to a level that is detrimental to the adequacy of its program. Fourth, if a State borrows regularly, it is in effect transferring temporarily a part of the UC tax burden from its employers to the general taxpayers, which some taxpayers may view as unfair.

State borrowing could be held to zero if States were to amass sufficient reserves to ride out the worst imaginable recession without an insolvency.

However, this policy would create an opportunity cost of another sort. Most States would have to increase taxable wage bases and/or tax rates significantly to implement such a policy, which would take funds away from employers that they could otherwise use for business purposes. Thus, a more moderate policy is thought to be desirable; that is, a policy that will avoid State borrowing in most circumstances, expect borrowing when unemployment is especially high, but hold borrowing to a level that will permit loan paybacks in a reasonable time.

2. The Vroman-Barnow Study

A study conducted for DoL 2/ addressed the question of how to determine the most appropriate funding level for a State account. The study examined research on this subject and found that no one has developed a better measure of fund adequacy than the standard developed by the Interstate Conference of Employment Security Agencies (ICESA) in the 1960s.

That standard uses a measure called the "high cost multiple" (see table 7.3). The numerator of this ratio is obtained by dividing fund assets at a point in time by the State's covered payroll for the prior 12 months. The denominator (the "high cost rate") equals unemployment benefit payments divided by covered payroll for the 12 consecutive months in which this quotient was at its highest. Thus, the larger the high cost multiple, the larger a State's fund balance is relative to its taxable payroll. If the State begins experiencing higher unemployment costs relative to taxable payroll than it did in the

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2/ Vroman, Wayne and Barnow, Burt. An Analysis of UI Trust Fund Adequacy. Unemployment Insurance Service Occasional Paper 87-1. U.S. Department of Labor, Washington, D.C. Dec. 1986. [Note: The Vroman-Barrow study uses the term "reserve ratio multiple" for the concept called "high cost multiple" by DoL.]

past, the high cost multiple will be lowered. The original ICESA recommendation was that States should design their financing to maintain a high cost multiple of at least 1.5 to assure that program funding would be adequate during economic downturns.

The Vroman-Barnow study concluded that a high cost multiple of 1.5 is probably too high for use as a national standard applicable to all States. That is, in most cases State program funding will be adequate at lower high cost multiples such as 1.0. The study surveyed agency analysts in eight major States and found agreement that a ratio of 1.5 is higher than needed and, therefore, higher than States can support politically.

Although the study concluded that no one had developed a better measure of fund adequacy, it pointed out that several factors critical to funding adequacy, such as tax capacity and tax responsiveness, are not captured by the high cost multiple. Capacity is determined by a State's taxable wage ceiling and its maximum tax rate schedule. Responsiveness depends on how much time elapses between the beginning of an unemployment rise and a State's implementation of a higher tax rate schedule and/or a higher taxable wage base. These features determine how quickly and how extensively a State's reserves can adjust to changing economic circumstances.

Vroman and Barnow also point out that asymmetry in adjustment for wage growth is a funding problem that a ratio for a point in time fails to capture. Since benefits are based on a worker's wages, benefits tend to rise with wage inflation. States apply maximum limits that curtail benefit growth, but 34 States automatically adjust these maximum limits for inflation. On the other hand, only 18 States automatically adjust their taxable wage bases for wage growth. Of the 34 States with indexed benefit maximums, 17 are among the States that automatically adjust taxable wage bases. Five of the 34 State programs base the size of any benefit adjustment on the financial status of the program, and four had suspended inflation adjustments as of January 1988. Thus, there are eight States that currently adjust benefit maximums automatically without any link to a wage-base adjustment.

The Vroman-Barnow study of trust fund adequacy found that funding was a major problem in both the 1973-1975 and the 1981-1982 recessions due to the magnitude of State borrowing that occurred. However, the study concluded that there is no consensus on how to define what an adequate trust fund balance would be. Although the "standard" of 1.5 for the high cost multiple is widely used, it is rarely achieved and is regarded as too limited in what it measures to be useful in all foreseeable circumstances.

C. Current Status of State Accounts

The UC system is emerging from a period of heavy borrowing that began with the 1973-1975 recession and continued through the two recessions of the early 1980s. Continued national economic growth, combined with State efforts to strengthen program financing, had reduced outstanding State loans by the end of 1987 to a balance of $2.1 billion owed by 3 States at the end of 1987 from a peak of $14.0 billion owed by 26 States in 1984. Of the three remaining debtor States, only Texas has an interest-bearing loan; Michigan and Pennsylvania have loans that date back to years before the institution of interest charges. However, Michigan and Pennsylvania are subject to an increased net Federal tax. The trend in loan balances for these three States is shown in table 7.4.

Texas began borrowing after the impact of the 1981-1982 recession. Having repaid those loans, Texas was then hit with the economic effects of the steep oil price decline of the mid-1980s. The State's outstanding loan balance has been rising, reaching $514 million at the end of 1987.

Michigan and Pennsylvania, on the other hand, are still paying off debt they began to incur in the 1973-1975 recession. Both States were slow to repay their debt during the late 1970s before the commencement of Federal interest charges. The two States were then hit hard by the 1981-1982 recession, their unpaid balances rising to $2.3 billion in Michigan and $2.7 billion in Pennsylvania by the end of FY 1983. Both States have since made significant progress in reducing their debt; Michigan has decreased its debt by 58 percent to $953 million and Pennsylvania by 78 percent to $588 million.

All of the other 29 programs that borrowed since 1978 have repaid their loans, including Illinois and Ohio, 2 States that were in debt all through the 1980s until the fall of 1987. A projection made by DoL in 1987 showed that all States would be solvent by 1990 barring an unexpected recession. 3/

Currently, the State accounts are in the best financial condition since before the 1974 recession. Total reserves have grown from $8.6 billion in 1979 to $22.9 billion in 1987. The ratio of these reserves to covered wages rose from 0.91 to 1.38 during that period (see table 7.3). The high cost multiples rose faster in 1984 and 1985 than in any other 2-year period since World War II.

However, the system's reserves still are inadequate when measured by the high cost multiple yardstick. Of the 53 State programs, only 4 (Hawaii, Mississippi, South Dakota, and the Virgin Islands) have high cost multiples above the ICESA benchmark of 1.5 (see table 7.3). No State was above 1.5 for the period 1971 to 1986. Even if the less stringent 1.0 benchmark is used,

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3/ Testimony of Roberts T. Jones, Deputy Assistant Secretary of Labor for Employment and Training, before the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation, Dec. 14, 1987.

only 14 States have multiples above that level. All but 6 of the 30 States with insolvencies since 1974 are still below the 1.0 level. Of the 10 States with the largest programs, only 1--Florida--has a multiple greater than 1.0. Five of these 10 States have multiples of 0.13 or less. 4/ Thus, if a major recession were to strike in the near future, a large number of States would be expected to once again exhaust their reserves and borrow heavily from the Federal Government.

D. Impact of the Next Recession on State Program Financing

This section presents two analyses of how well State programs are prepared financially for the next recession. First, a Congressional Research Service (CRS) analysis using DoL's trust fund forecasting model is discussed. Second, a General Accounting Office (GAO) study that also used the DoL forecasting model is presented.

The DoL model's estimates are developed from a national projection of outlays and revenues by fiscal year that varies with the specification of economic variables. State unemployment levels are assumed to maintain their current relationship to the national level. Based on the specific data entered, the trust fund balances are computed for the end of each half-year. The FUTA credit reduction provisions for outstanding balances on State loans are also computed, and reduced credit amounts are treated as loan payments. When a trust fund balance is negative, it is assumed that a loan is taken by the State, and, if the balance is positive, voluntary repayment of the loan is assumed. Both the trust fund and loan balances are computed assuming a straight-line progression of revenues and outlays through 6-month periods,

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4/ These States are Illinois, Michigan, Ohio, Pennsylvania, and Texas.

with interest rates applied to average balances. National estimates are the sums of individual State estimates.

1. Congressional Research Service (CRS) Study

A trust fund forecasting model maintained by DoL was used to project the consequences of the next recession for the UC system. A recession scenario was specified by CRS, and the DoL model projected State program financing through 1993 for the scenario. The model also projected results based on the economic forecast used for the President's FY 1989 budget. The recession would begin in 1990 and peak in 1991 with unemployment at 7.0 percent. The President's forecast assumes unemployment will decline slowly each year. (For a further description of the DoL model and the projected economic scenarios, see chapter 6.) The results of these projections are summarized in table 7.5.

Under the Administration forecast, four States would borrow a total of $2.3 billion over fiscal years 1988-1993. However, States with loans would be able to repay them quickly to produce a steadily falling balance of outstanding loans, declining from $2.2 billion in FY 1988 to $0.6 billion in FY 1993. The net trust fund balance for all States would rise by 50 percent, from $28.9 billion in FY 1988 to $42.9 billion in FY 1993. However, there would be 14 States with declining account balances over these years.

The outlook is worse for the recession scenario, of course. In this case, 11 States would need to borrow $3.3 billion, or 40 percent more than under the Administration forecast. The balance of loans outstanding would fall to $0.7 billion in FY 1989, then rise to $1.2 billion in FY 1992 before declining once again. The net trust fund balance would rise to $37.5 billion in FY 1990, fall to $32.9 billion in FY 1991, and then rise to $38.8 billion by FY 1993. The number of States whose account balances would fall over the period would total 15.

TABLE 7.5. Impact of Alternative Economic Forecasts on State Borrowing and Unemployment Compensation Trust Fund Balances
($ in millions)

	Alternative economic forecast:	
	Administration	Recession in 1990
New borrowing by States, 1988-1993	$2,339.9	$3,279.0
Number of States borrowing, 1988-1993	4	11
Maximum borrowing in a single year	526.6 (1993)	1,077.7 (1991)
Loans outstanding (no. of States):		
1987	2,151.2 (3)	2,151.2 (3)
1988	1,974.2 (4)	1,977.9 (4)
1989	772.4 (3)	661.2 (3)
1990	785.0 (3)	688.4 (3)
1991	786.0 (4)	1,173.0 (4)
1992	760.9 (4)	1,191.9 (7)
1993	591.0 (3)	974.4 (8)
Net trust fund balance:		
1988	28,923.3	28,847.7
1989	33,851.4	35,459.3
1990	37,515.1	37,515.6
1991	40,214.3	32,927.5
1992	42,069.2	34,898.7
1993	42,920.8	38,785.9
Number of States with declining trust fund balances, 1987-1993	14	15

Source: Estimates from DoL model of State unemployment insurance trust fund accounts.

The financial outlook would be considerably worse under a recession of the magnitude experienced in 1981-1982, of course, but the milder recession examined here would not unduly strain the system. In fact, the loan balances outstanding would remain well below $2 billion over the projection period, which is much less than the balances of $5 to $13 billion experienced during FY 1978 through FY 1986. The high cost multiple would remain near its current level for the projected recession.

2. General Accounting Office (GAO) Study

The GAO has also conducted an analysis of State program funding under a projected recession using DoL's estimating model. 5/ The study assumed that a recession would begin in 1988 that would have an impact equal to the average impact of the last five recessions. Under this scenario, GAO found that 17 State accounts would become insolvent and would require $7 billion in loans. GAO concluded that the funding of the State programs is inadequate and needs strengthening.

It should be noted that this analysis began during FY 1987 when seven State accounts were insolvent and the program nationally had reserves equal to only 5 months of recession-level benefits. By the end of calendar year 1987, the number of insolvencies had fallen to three and total reserves equaled 7 months of recession-level benefits. Thus, a more recent study would have found the system in a somewhat better position to weather a recession.

5/ Testimony of William J. Gainer, Associate Director of the General Accounting Office, Unemployment Insurance: Issues Relating to Reserve Adequacy and Trust Fund Solvency, before the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation, Dec. 14, 1987, and before the House Government Operations Subcommittee on Employment and Housing, July 7, 1988.

GAO's study led them to conclude that, despite the improvement in State reserves since the 1982 recession ended, the improvement has not been rapid enough to keep the system out of trouble. As an example, they note that Massachusetts, with very low unemployment, has not seen enough improvement in its high cost multiple to assure that its program could ride out the next major recession without an insolvency. GAO found that, "the majority of State UI funds do not have adequate reserves."

GAO cites several factors that lie behind this situation:

- Higher unemployment in the 1970s and 1980s than before;
- A belated effort by the Federal Government to make the States financially accountable for their programs; and
- A failure by States to bring their tax bases up-to-date to meet the costs of benefit improvements such as inflation adjustments and extended benefit programs.

The GAO testimony stated that, "trust fund reserves will not reach adequate levels even under conditions of relatively strong economic growth over the next 5 years."

The GAO testimony suggested Federal action to strengthen State funding, citing as options the implementation of Federal adequacy standards, use of positive financial incentives for States to maintain adequate reserves, and increases in the Federal taxable wage base for reinsurance of States with high unemployment. However, GAO cautioned that added pressure on States may lead them to curtail benefits further, thereby creating hardship for unemployed workers.

E. Conclusions

The funding of State programs has improved significantly since the 1981-1982 recession, owing to a long period of economic growth and the financial incentives established in Federal law for States to improve their funding balances. Still, there are signs of potential trouble ahead. First, there is an imbalance in the way the system responds automatically to wage growth, with eight States adjusting benefit maximums automatically without any linkage to adjustments in the taxable wage base. Second, funding improvements, although helpful, have left all but 14 States with high cost multiples below 1.0, which is a lower standard than that favored by many as a benchmark of funding adequacy. Only 1 of the 10 largest State programs has a multiple greater than 1.0.

Despite the potential problems, it would take a major recession to throw the system into a new period of financial disarray. Projections show that a modest recession occurring in 1990 would trigger considerable borrowing by States, but the cumulative amount borrowed would fall far short of the level experienced during the more severe recessions of the 1970s and 1980s.

F. Federal Policy Issues

Several possible approaches could be taken at the Federal level to improve benefit financing. Three such approaches are discussed below: increasing the Federal tax base; establishing Federal funding requirements; and creating a Federal reinsurance fund for States with high unemployment.

1. Increasing the Federal Tax Base

A strong case can be made that the ceiling on wages subject to FUTA taxes, currently $7,000, has lagged far behind the growth in wages. As indicated by chart 2.33, the current taxable wage ceiling is equivalent to only 38 percent of the 1940 ceiling after adjustment is made for wage growth since then. The program originally covered all wages earned by covered workers; in 1939, a ceiling was set at $3,000, which covered 93 percent of all wages. Today, only one-third of wages are subject to FUTA. Had the 1939 ceiling been continually indexed for wage inflation, the current ceiling would be $42,191 instead of $7,000.

The reason why the ceiling was allowed to fall in real wage terms is apparent. The wage base was more than ample to cover the unemployment experienced during the 1940s, 1950s, and 1960s, when there were few years with high unemployment rates. It would have been politically difficult to justify a steadily rising taxable wage base during times when the system's funding consistently produced high cost multiples well in excess of the 1.5 benchmark.

Should the Federal wage base now be raised as a means of restoring UC funding to a more adequate level? A rising Federal wage base would have an immediate impact on funding in the 16 States that use the $7,000 level as the base for the payroll tax imposed by the State. Raising the Federal base to $10,000 would force funding improvements in 35 States. Of the 18 States that would be unaffected, 8 have high cost multiples below the U.S. average. A base of $42,000, to restore the real value of the original $3,000 ceiling, would affect every State.

Raising the Federal tax base would have consequences for other aspects of the system. Since Federal UC revenue is now used mostly to pay for administrative costs, a higher Federal base might mean either using the added Federal revenue for other program purposes or cutting the Federal tax rate to keep revenue in line with administrative requirements. A second consequence would be an effect on tax progressivity. An increase in the wage base would make the tax more progressive, in that it would require employers to pay added taxes only for those workers whose wages exceed the base. A third consequence lies in the Federal-State nature of the system. There is great variability in benefit levels, and that variability is reflected in State taxable wage bases. If a much higher Federal wage base forced more uniformity on State wage bases, that might lead to pressures for Federal benefit standards. Finally, imposition of a higher wage base without offsetting rate cuts would add to the labor costs of employers, who might pass that added cost through to employees by reducing their compensation over time relative to what it would have been. This impact would take on more significance than usual at the present time, since Congress is being asked to consider several mandatory employee benefits, such as a standard health insurance plan, that would also increase employer labor costs.

2. Federal Funding Requirements

The Federal Government could compel States to maintain funding at levels deemed adequate by setting a required standard and enacting financial penalties for States that did not comply. The primary difficulty with this approach is that a simple standard would undoubtedly become complex over time as States that would find the standard difficult to meet would argue its inequities. The National Commission on Unemployment Compensation considered this issue and stated that:

> The difficulty with a Federal uniform standard lies in developing one that is effective and equitable among States. To take into account State differences in UI program structure, industrial mix, seasonality, and economic growth would be extremely difficult and would probably result in a standard that is very complex. 6/

6/ National Commission on Unemployment Compensation. Unemployment Compensation: Final Report. Washington, July 1980. p. 88.

3. Federal Reinsurance

The net Federal tax could be increased for the purpose of establishing a reinsurance fund for the States. The idea would be to create a backup for State funding so that a State with a long-term problem of high unemployment could draw on the fund until its economic problems were resolved without having to resort to the unpromising alternatives of cutting benefits or raising taxes. The availability of funds from the reinsurance pool could be tied to a State's experiencing UC costs in excess of some norm based on the State's long-term unemployment experience relative to the U.S. as a whole. A reinsurance program could also be tied to some imposition of Federal funding standards by making reinsurance available only to States that had been in compliance with funding standards during some prior time period. A basic issue that reinsurance raises is its potential for redistribution of tax funds from States that would seldom qualify for reinsurance to those that might qualify frequently. Thus, eligibility rules and repayment terms probably would become more complex over time as specific inequities became apparent.

II. CRITICISMS OF THE FUNDING OF PROGRAM ADMINISTRATION

A number of States and State organizations have alleged that recent Federal decisions on the level and allocation of funds for State administration of UC programs have jeopardized the integrity of some State programs and created inequities among States. States favor policy changes that will result in higher total appropriations for this activity, and a majority favor combining greater funding levels with an altered distribution of funds among the States.

A. Background on Current Financing Arrangements

State UC administrative expenses are federally financed through a trust fund account (ESAA) in the Federal budget. The operation of this account was described in chapter 1 of this report. 7/

The President's budget annually sets forth estimates of national unemployment in terms of the volume of unemployment claims expected to be filed per week--i.e., the average weekly insured unemployment (AWIU). Funds requested to cover an initial portion of the AWIU are allocated to States first ("base" funds), and additional funds are requested for later allocation to cover the

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7/ Funding of the Employment Service (ES) is related to UC administrative funding. ES is currently funded 97 percent from ESAA and 3 percent from general revenues. Total funding is discretionary, with the distribution to State agencies made on a formula basis. Each State's share of the total is guaranteed to be no less than 90 percent of its share before the 1982 amendments that established the current arrangements.

remainder of the AWIU ("contingency" funds). Nationally, base funding requested for FY 1989 equals the estimated resources needed to process an average of 1.8 million weeks of unemployment. The contingency funding request for FY 1989 is based on an additional 0.41 million weeks of unemployment.

States receive grants to administer their UC programs from both base and contingency funds. Base funds are allocated at the beginning of the fiscal year and distributed to the States, while contingency funds are allocated to States on the basis of observed need if and when it becomes apparent that a State's workload will exceed its base level for the year. States receive the level of contingency funds required to process their additional workloads over their base levels.

The DoL's allocation of base UC funds to each State involves the following steps:

(1) Projecting the expected workloads to be processed by each State over the next year;

(2) Adjusting the workload projections to agree with the total budgeted workload for the year;

(3) Determining the staff required to process that workload;

(4) Multiplying the staff-year allocations for each State by the cost per staff year specific to each State; and

(5) Allocating overhead funds using a methodology based on the staff years projected in the UC base allocation.

Staff requirements are based on DoL estimates of the minutes per unit (MPU) needed in each State to process claims and pay benefits.

Full Federal funding of administrative costs for a State-administered program is rare among Federal benefit programs. However, the original drafters of the Social Security Act felt that a Federal guarantee of adequate resources for UC administration was essential if a properly run program were to be established in every State. 8/ The administrative arrangements enacted then have changed little, though States now argue that the "guarantee of adequate resources" is not being realized.

In the program's early days, Federal grants to States for administration were based on detailed, line-item budgets submitted by the States. In 1941, DoL moved to a system of budgeting by function, using measures of standard cost for each administrative function based on time and motion studies or on the State's past experience. This system was simplified somewhat in 1963. 9/

During the 1970s, DoL developed a computer model (the Cost Model Management System) to produce budget allocations based on a "minutes per unit" (MPU) concept of work. An MPU estimate was made for each step in eligibility determination, benefit payment, and other management functions. Time and motion studies provided the basis for MPU estimates. However, use of the Cost Model has been limited in recent years since tight budgetary constraints at DoL have prevented the analysis needed to keep it up-to-date. Now the computer model's results provide only a preliminary step in determining State allocations. The model's estimates are adjusted on the basis of other considerations, and the total allocation must meet an overall budget target derived from the Federal budget process.

B. Criticisms Raised by the States

In a system with the size, complexity and workload variability of UC, it may not be surprising that some States are unhappy with the allocation of

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8/ Witte, Edwin E. The Development of the Social Security Act. Madison, University of Wisconsin Press, 1963.

9/ Haber, William, and Merrill G. Murray. Unemployment Insurance in the American Economy: An Historical Review and Analysis. Homewood, Ill., Richard D. Irwin Inc., 1966.

administrative funds by DoL and the congressional appropriations process. State complaints about these funding arrangements are not new, but they have grown in recent years, and some States assert that program quality is being damaged. This section describes specific State objections to the current arrangements.

1. Department of Labor Unemployment Estimates

Since workload estimates depend on the forecast of unemployment, this forecast is a critical factor in determining how adequate administrative funding will be when a new fiscal year begins. DoL uses the unemployment forecast that is adopted by the White House for its annual budget request. Such forecasts are often regarded as optimistic, reflecting the traditional White House view that the President's policies will yield positive economic results. If the level of optimism reaches unrealistic heights, the States will be in a difficult situation as a new fiscal year begins.

2. Department of Labor Cost Model Status

As already mentioned, the DoL Cost Model for State fund allocations has become outdated because the necessary time and motion studies have not been funded. There is a suspicion at DoL that some States began "gaming" the data used in the model, since State personnel were used to gather data for the system. Also, the model created incentives for States to boost their MPU estimates. However, DoL's current techniques for determination of State allocations may appear to the States as less objective and systematic than they were when based on the Cost Model.

3. Technical Criticisms of the Department of Labor's Allocation Methodology

States have called attention to several perceived problems with the information DoL uses in making funding allocations. 10/ The States assert that:

- o DoL may not be fully accounting for the size of a State's fixed costs. That is, DoL may treat more of a State's cost as variable with annual workload than the State agency believes to be the case.
- o DoL does not account for the financial tradeoffs between funds spent for equipment v. personnel. Added equipment may achieve significant savings, but States argue that such considerations are left out of allocation decisions.
- o State costs for nonpersonal services 11/ vary widely due to long-standing differences in State approaches to administration, variations which DoL may not find acceptable.
- o DoL does not do multi-year budgeting that would recognize that added costs for State management initiatives in one year may produce administrative savings over several years. This approach discourages States from making long-term investments to achieve savings.
- o Cutbacks in Employment Service (ES) funding have raised UC overhead costs due to the joint nature of the State agency's role with ES and UC, a fact that may not have been properly recognized by DoL.

10/ A House Appropriations Committee investigation of this issue was presented in U.S. House Committee on Appropriations. Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations for 1986. Hearings, 99th Cong., 1st Sess., Part 1. Washington, U.S. Govt. Print. Off., 1985. p. 414-560.

11/ Nonpersonal services are administrative budget items that are neither staff compensation nor capital expenditures. Examples include supplies, travel and communications.

4. U.S. Office of Management and Budget (OMB) Treatment of the Department of Labor Budget Requests for Administrative Funds

A primary role of OMB is to trim the requests submitted by executive branch agencies in order to meet a governmentwide budget target while upholding the President's policies and priorities. The States argue that this behavior is inappropriate in the case of UC administration since the funds are trust fund monies and the DoL request is based on a detailed assessment of what each State needs to run its program.

5. Sequestration of Unemployment Compensation Administrative Funding

The appropriation account for UC administration is subject to sequestration under the Gramm-Rudman-Hollings deficit reduction legislation, and funds were sequestered in FY 1986. States argue that it is inappropriate to reduce arbitrarily the funds needed to administer a large entitlement program which pays benefits that are not subject to sequestration and are financed by earmarked State payroll taxes.

6. Availability of Trust Fund Assets Designated for Program Administration

Spending from the trust fund's ESAA account is based on DoL's estimates of the States' needs and on overall Federal spending limitations set by the Federal budget process. States argue that the funds are comprised of payroll taxes specifically collected for the purpose of program administration and should be fully available for that purpose so long as State funding needs do not exceed ESAA balances.

7. Redistribution of Administrative Funds Among States

The FUTA tax is assessed on employers nationwide based on size of payroll, but fund allocations are based on a State's need for administrative funds as determined by DoL. This process necessarily redistributes funds among the States. Some States argue that the amount of allowable redistribution should be limited. Currently, allocations do not take into account how much a State may be "gaining" or "losing" in grants compared to what its employers paid in taxes.

C. Information Pertaining to the States' Allegations

This section presents data pertinent to the issues raised by the States.

1. Have Unemployment Forecasts Been Too Optimistic?

A key factor that determines the level of funding and the timing of fund availability is the forecast of unemployment. Such forecasting will frequently be inaccurate. The question here is whether forecasting has consistently erred on the optimistic side.

An examination of predicted and actual unemployment rates by Kamlet et. al. 12/ showed no such bias. For example, from 1976 through 1984, the unemployment rate predicted by the executive branch was more optimistic than the actual outcome in only 2 of those 9 years (1980 and 1982). This study concluded that "Short-term forecasts prepared by the Executive branch and Congress

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12/ Kamlet, Mark S., David C. Mowery, and Tsai-Tsu Su. Whom Do You Trust: An Analysis of Executive and Congressional Economic Forecasts. Journal of Policy Analysis and Management, v. 6, no. 3, spring 1987.

appear to be accurate and unbiased, by comparison with either private predictions or outcomes." Of course, DoL's methodology for converting unemployment forecasts into workload forecasts could still cause problems, even with accurate forecasts.

The DoL's division of funds into base and contingency amounts may also create problems. DoL does not adjust base funding levels greatly from year to year (see table 7.6). They are trying to maintain a stable but lean program workforce and minimize the chance that a State will operate at a base level higher than necessary for a particular year. However, a result of this approach is that contingency funding varies tremendously as a share of total administrative funding, rising from 15 percent in 1979 to levels of 40 to 50 percent in 1980-1983, and then falling to only 14 percent in 1984. Such fluctuations make the States' planning difficult. It should be kept in mind that advance planning is inherently difficult in this system, since the UC workload is more sensitive to economic change than that of other large programs.

TABLE 7.6. Base and Contingency Levels of Unemployment, FY 1975-1986

Fiscal year	Average weekly insured unemployment (millions)		
	Base level	Contingency level	Total
1975	1.5	2.7	4.2
1976	2.1	3.4	5.5
1977	2.1	1.4	3.5
1978	2.1	0.7	2.8
1979	2.1	0.4	2.5
1980	1.9	1.6	3.5
1981	2.1	1.4	3.5
1982	2.1	2.1	4.2
1983	2.1	2.1	4.2
1984	2.2	0.4	2.6
1985	2.1	0.5	2.6
1986	2.0 a/	0.6	2.6

a/ Base level is also 2.0 million for 1987 and 1988. The level requested by the President for 1989 drops to 1.8 million.

2. Have Recent Budget Pressures Led to Cuts in Administrative Funding?

The appropriations history for UC administrative funds over the past 10 years is shown in table 7.7. These data are for the entire appropriation account, which includes funding to administer ES as well as UC. The table shows that the enacted figure was less than the President's request in 4 of these 10 years--the last Carter year (FY 1981) and 3 Reagan years (1985 through 1987). These latter 3 years include 1985, when the President's request overestimated the actual unemployment level substantially, and 1986, the year in which sequestrations occurred under the Gramm-Rudman-Hollings deficit reduction legislation. In the other 6 years shown in table 7.7, Congress has appropriated more administrative funds than the President requested. The congressional cuts in 1985, 1986, and 1987 totaled $145 million, or about 2 percent of the funds the President requested.

Whether or not UC administrative grants should be sequestrable is a difficult question. On the one hand, grants to States for welfare administration are not sequestrable, but on the other hand, social security trust fund expenditures for administration are subject to sequestration. It can be argued that automatic budget cuts in administration for a benefit entitlement program make no sense. However, the part of annual growth in UC benefit spending that is due to wage inflation and State benefit improvements does not necessarily result in larger workloads. Thus, administrative expenditures could be more controllable than benefit expenditures, but only if wage inflation pressures on staff salaries can be resisted.

TABLE 7.7. Appropriations for Grants to States for Administration of Unemployment Compensation and Employment Services, FY 1979-1989 (dollars in millions)

Fiscal year	Budget authority			
	President's request	House-passed	Senate-passed	Enacted
1979	1,705	1,715	1,715	1,715
1980	1,944	1,944	1,944	1,944
1981	2,157	2,157	(a/)	2,028
1982	2,276	2,633	2,540	2,296
1983	2,622	2,677	2,753	2,753
1984	2,747	3,311	3,340	3,340
1985	2,446	2,414	2,450	2,431
1986	2,428	2,484	2,470	2,377
1987	2,509	2,513	2,365	2,430
1988	2,363	2,559	2,494	2,441
1989	2,394	2,495	2,508	(b/)

a/ No separate Senate action occurred for FY 1981.

b/ No congressional action yet for FY 1989. As of late August 1988, Congress had not acted on the conference report concerning the appropriation measure (H.R. 4783). Conferees recommended appropriations of $2,489 million.

Source: U.S. Department of Labor. Budget Justifications, FY 1989.

3. Have Funding Levels Fallen Relative to the States' Requirements?

Tables 7.8 and 7.9 analyze the obligations for UC administrative grants for that same 10-year period. Table 7.8 compares the actual obligation figures with the real trend in 1987 dollars after adjusting for inflation. In constant 1987 dollars, obligations peaked in the recession budget of FY 1983 and have fallen steadily since then. The 1988 level is 23 percent below that of 1983. The President's 1989 request would reduce funding to 25 percent below the peak figure.

TABLE 7.8. Obligations for Grants to States for Administration of Unemployment Compensation in Nominal and Real Dollars, FY 1979-1989 (dollars in millions)

Fiscal year	Obligations	
	Nominal dollars	Real dollars (1987) a/
1979	$965	$1,622
1980	1,145	1,742
1981	1,316	1,826
1982	1,438	1,842
1983	1,708	2,060
1984	1,536	1,761
1985	1,544	1,686
1986	1,546	1,622
1987	1,629	1,629
1988	1,660 b/	1,587
1989	1,678 c/	1,553

a/ Nominal dollars were adjusted to 1987 dollars using the "State/local nondurable purchases" deflator developed by the U.S. Office of Management and Budget.

b/ Estimated.

c/ President's request.

Source: President's Budget, various fiscal years.

Of course, the unemployment rate has also fallen steadily during the years since 1983, and the number of beneficiaries nationwide in 1987 was only two-thirds the number in the peak year of 1982. Thus, most States should have smaller workloads now than was the case in 1982 or 1983. Table 7.9 converts the data on constant-dollar obligations into real administrative dollars per initial claim and per week claimed. Both of these measures of real funding per workload unit show higher figures since the recession than before. The 1988 data--$97.26 per initial claim and $14.06 per week claimed--are the highest for the 10-year period.

It would be expected that administrative costs per workload unit would rise as unemployment falls, since there is fixed overhead present in the State agencies that cannot be reduced as rapidly as the workload declines. However, the 83-percent increase in obligations per week claimed shown in table 7.9 between 1983 and 1988 may be too large to be accounted for entirely by a rise in overhead rate. Part of the rise may be due to the termination in 1985 of the temporary Federal supplemental compensation (FSC) program, whose beneficiaries cost less administratively than do regular beneficiaries.

Regardless of what an accounting analysis would show the fixed overhead rate to be, a State might want to maintain its administrative structure at a higher level so as to be prepared for the next recession. The State agency has to answer to its residents if its staffing proves inadequate; DoL has to answer to Federal taxpayers as to whether its funds are being used to best advantage during an era of tight budgetary constraints on its programs.

TABLE 7.9. Obligations Per Claim for Grants to States for Administration of Unemployment Compensation in 1987 Dollars, FY 1979-1989

Fiscal year	Obligations (1987 dollars) (millions)	Initial UI claims filed (thousands)	Total UI weeks claimed (thousands)	Obligations per	
				Initial claim	Week claimed
1979	$1,622	19,572	121,122	$82.87	$13.39
1980	1,742	25,575	180,219	68.11	9.67
1981	1,826	22,796	183,008	80.10	9.98
1982	1,842	33,099	217,985	55.65	8.45
1983	2,060	34,635	268,065	59.48	7.68
1984	1,761	19,321	159,844	91.14	11.02
1985	1,686	22,312	147,002	75.56	11.47
1986	1,622	20,373	140,459	79.62	11.55
1987	1,629	18,991	129,660	90.36	12.65
1988	1,587 a/	17,068 a/	112,844 a/	97.26	14.06
1989	1,553 b/	17,675 a/	115,133 a/	91.90	13.49

a/ Estimated by U.S. Department of Labor.

b/ President's request.

Source: President's Budget, various fiscal years.

4. Are More Funds Available for Administration Than Are Appropriated?

Appropriations are based on DoL's assessment of State budgetary requirements, not on the size of FUTA revenue collections. Thus, the balance in the ESAA account tends to grow during periods of economic growth, when payroll taxes rise relative to UC workloads, and fall during recessions. It has been rightly noted that Congress achieves deficit reduction by allowing this balance to grow, which has been a motivating factor for a tighter rein on ESAA spending over the past few years.

Table 7.10 shows the year-end balances in ESAA since FY 1979. After the recessionary dip, the balance has more than tripled. In constant 1987 dollars, the balance has more than doubled. However, the real balance stayed fairly level from 1984 through 1986. The 1987 year-end figure was much higher than a year earlier, but the level on March 31, 1987 was only $742 million.

TABLE 7.10. Balance in Employment Security Administration Account (ESAA), in Nominal and Real Dollars, FY 1979-1987

	ESAA balance, end of year (millions)	
Fiscal year	Nominal dollars	Real dollars (1987) a/
1979	$572	$962
1980	779	1,185
1981	815	1,131
1982	511	655
1983	736	888
1984	961	1,102
1985	1,035	1,130
1986	1,049	1,100
1987	1,612	1,612

a/ See footnote a, table 7.8.

Source: U.S. Department of Labor.

5. Has Program Administration Deteriorated?

There are several sources of information on the administrative experiences of States during recent years. For instance, a State survey 13/ conducted by the ICESA for FY 1987 found the following:

- o Seven States were laying off a total of 466 employees;
- o Eleven States were closing a total of 94 offices and service points;

13/ Interstate Conference of Employment Security Agencies. FY 1987 UI Funding Reduction Impact Survey Summary. Washington, Feb. 1987.

- Twenty-two agencies had requested State funding totaling $50 million;
- Twenty-nine States expected workload backlogs;
- Twenty-seven States were leaving 544 jobs vacant to pay for wage growth; and
- Twenty-four States were converting $33 million in staff funds to other uses.

A study by the U.S. General Accounting Office (GAO) of 20 State agencies tends to confirm the ICESA results. 14/

These statistics indicate that States have had to reduce staffing and office services, but they provide no context within which to judge whether the reductions are reasonable in relation to workload declines. They do not necessarily show an objective need for additional administrative resources. The unemployment rate has fallen in each of the past 6 years, the longest period of decline since the mid-1960s. To operate the program at a resource level consistent with workload, layoffs and office closings are necessary but unpopular steps. The political difficulty of making these reductions has no doubt been a factor in leading some States to mitigate the effects with infusions of their own funds.

The data collected by DoL seem to provide a more objective look at quality of administration. Selected data for FY 1984 through FY 1987 are shown in table 7.11. This table shows the number of States that fell below DoL's management goals for each of several administrative functions. One measure improved significantly during the 4 years--promptness in processing initial claims. States were able, through careful resource allocations and productivity increases, to maintain or improve this politically sensitive function. The other measures held steady or declined over this period. The greatest decline occurred in the promptness of nonmonetary determinations.

14/ The GAO study has not yet been released.

TABLE 7.11. Selected Data on the Quality of State Unemployment Compensation Program Administration, FY 1984-1987

Program administration category b/	Number of States below desired level of achievement a/			
	FY 1984	FY 1985	FY 1986	FY 1987
Promptness in processing initial claims (intrastate)	11	9	7	7
Nonmonetary determinations	21	20	22	25
Appeals	20	20	14	19
Field audit penetration	13	12	14	11
Employer report delinquency	14	15	18	16

a/ DoL sets specific "desired levels of achievement" for States in a number of administrative categories. For example, 87 percent of intrastate initial claims are expected to be paid within 14 to 21 days and 93 percent within 35 days.

b/ "Initial intrastate claims" refers to first claims filed in a State that is the State where the last job was located. "Nonmonetary determinations" are determinations of a claimant's eligibility status based on the nature of the job separation. "Appeals" refers to administrative appeals of eligibility and benefit decisions. "Field audit penetration" concerns the percentage of employers audited for compliance with tax laws. "Employer report delinquency" concerns the percentage of required reports from employers that are filed after the due dates.

Source: U.S. Department of Labor. Unemployment Insurance Quality Appraisal Results, reports for FY 1984 through FY 1987.

Based on comments received from State organization staff, these data seem to indicate that, as States have been forced by falling unemployment to reduce their UC operations, they have tried to maintain claims processing capacity in order to minimize the political impact of office closings and long waiting lines. States have tended to cut back in less visible activities such as those having to do with maintaining operational quality control and monitoring payroll tax collections.

6. Is the Redistribution of FUTA Revenues Among the States Unfair?

All Federal taxes involve some element of redistribution among geographic areas when revenue amounts are compared by areas of collection versus areas where the collected funds are spent. For example, social security is funded by payroll taxes, but the beneficiaries are retirees whose geographic distribution is substantially different from that of the taxpaying employers and wage-earners. To take another example, Federal income taxes are used for part of the cost of State public welfare programs in ways that result in redistribution of funds among States when the locations of taxpayers and recipients are compared.

The redistribution of FUTA revenues is a sensitive issue because it is under the direct administrative control of a Federal agency. Unlike the social security example, where redistribution occurs because of the individual actions of millions of people, the redistribution of administrative funds is tied directly to policy decisions by DoL as authorized by Title III of the Social Security Act.

State-by-State data on revenue collected and administrative grants paid were obtained from DoL for 1973-1986, 15/ a period that includes two major recessions and considerable shifts in the relative economic strength of different geographic regions. The data were analyzed to determine if the "winners" and "losers" remain the same over time or whether States change categories as conditions change. A winner was defined to be a State whose share of total administrative grants exceeded its employers' share of FUTA taxes in a particular year. The results are shown in table 7.12.

15/ The Department of the Treasury does not maintain State-by-State records on the sources of FUTA revenue. The State revenue data used here are estimates made by DoL.

TABLE 7.12. Number of Years that State Share of Total Grants for Administration of Unemployment Compensation and Employment Services Exceeded State Share of Total Payroll Taxes Available for Administration Grants, 1973-1986

States a/	Number of years between 1973 and 1986 that State's share of grants exceeded State's share of payroll taxes b/	Number of States
Alaska, Arkansas, District of Columbia, Hawaii, Idaho, Maine, Michigan, Montana, Nevada, New Mexico, New York, North Dakota, Oklahoma, Oregon, Puerto Rico, Rhode Island, South Dakota, Utah, Vermont, Washington, Wyoming	14	21
California, Pennsylvania	13	2
Arizona, Mississippi, New Jersey	11	3
Nebraska	10	1
Delaware, Virgin Islands, West Virginia	9	3
Alabama, Iowa, Wisconsin	7	3
Massachusetts	5	1
Illinois, Missouri, New Hampshire	3	3
Kansas	2	1
Colorado, Connecticut, Louisiana	1	3
Florida, Georgia, Indiana, Kentucky, Maryland, Minnesota, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia	0	12

a/ "States" refers to State unemployment compensation programs, which are located in the District of Columbia, Puerto Rico, and the Virgin Islands, as well as in each of the 50 States.

b/ The quantities compared are (1) a State's share of total U.S. grants to States for administration v. (2) a State's share of total available payroll taxes, which is 95 percent of FUTA taxes allocated to ESAA.

Source: Developed from Congressional Research Service (CRS) analysis of U.S. Department of Labor data set forth in Unemployment Insurance Program Letter No. 25-86.

Of the 53 State-level jurisdictions, 33 were either always winners (21) or always losers (12). Another 6 stayed in the same category for at least 12 of the 14 years examined. Thus, only the remaining 14 States shifted between winner/loser status for at least 3 of the 14 years. The perennial winner States tend to be either large, lightly populated States where program outreach is costly (Alaska, Nevada, Utah), or jurisdictions with relatively high ratios of insured unemployment rate (IUR) to total unemployment rate (TUR) (California, New York, Pennsylvania). The losers were mostly States with low benefits and low IUR/TUR ratios (Florida, Georgia, Louisiana, Texas). Another factor that seems to determine a State's outcome is whether it is a high- or a low-wage State. Of the 17 States with the lowest average wage in covered employment, 76 percent were winners in 10 or more years (such as Arkansas, Maine, Mississippi and Puerto Rico). Of the other 36 State programs, only 42 percent were frequent winners.

The average yearly gain or loss is shown for each State in table 7.13. The average gains for the period 1973-1986 range up to $24.9 million for Michigan. The largest average loss was $41.7 million for Texas.

The charge that DoL's allocation policies lead to a permanent redistribution of funds can be justified. However, the basis of those policies--considerations of outreach costs, program size, unemployment level--are not subject to DoL's control.

TABLE 7.13. Average Annual Grants Received for State Administration of Unemployment Compensation and Employment Services and FUTA Taxes Paid for Administration, 1973-1986
($ in millions)

State	Grants received	Taxes paid	Surplus/(deficit)
	Yearly averages for the period 1973-1986:		
U.S., total	1,685.2	1,727.3	(42.0)
Alabama	23.9	24.5	(0.6)
Alaska	15.1	4.3	10.8
Arizona	20.5	19.9	0.6
Arkansas	16.9	13.8	3.1
California	211.4	198.5	12.9
Colorado	21.1	24.4	(3.3)
Connecticut	25.8	28.2	(2.4)
Delaware	4.7	4.6	0.1
D.C.	11.5	7.5	4.0
Florida	41.4	73.7	(32.3)
Georgia	28.3	42.2	(13.9)
Hawaii	8.8	6.9	1.9
Idaho	11.6	5.6	6.0
Illinois	81.2	92.1	(10.9)
Indiana	29.1	41.1	(12.0)
Iowa	18.2	18.5	0.3)
Kansas	14.1	16.5	(2.4)
Kentucky	18.4	21.8	(3.4)
Louisiana	24.6	29.3	(4.7)
Maine	9.5	7.4	2.1
Maryland	24.9	29.5	(4.6)
Massachusetts	42.4	48.5	(6.1)
Michigan	91.0	66.1	24.9
Minnesota	27.3	30.5	(3.2)
Mississippi	16.4	14.6	1.8
Missouri	33.1	35.9	(2.8)
Montana	8.4	4.5	3.9
Nebraska	10.7	10.1	0.6
Nevada	12.5	8.6	3.9
New Hampshire	6.0	7.5	(1.5)

TABLE 7.13. Average Annual Grants Received for State Administration of Unemployment Compensation and Employment Services and FUTA Taxes Paid for Administration, 1973-1986--Continued
($ in millions)

	Yearly averages for the period 1973-1986:		
State	Grants received	Taxes paid	Surplus/(deficit)
New Jersey	62.6	59.5	3.1
New Mexico	10.2	8.0	2.2
New York	160.1	139.9	20.2
North Carolina	31.2	46.5	(15.3)
North Dakota	8.0	3.6	4.4
Ohio	63.0	82.3	(19.3)
Oklahoma	22.8	20.5	2.3
Oregon	27.2	18.4	8.8
Pennsylvania	100.2	87.1	13.1
Puerto Rico	16.4	10.1	6.3
Rhode Island	11.0	7.3	3.7
South Carolina	18.4	22.0	(3.6)
South Dakota	6.5	3.5	3.0
Tennessee	21.8	32.7	(10.9)
Texas	78.2	119.9	(41.7)
Utah	18.7	8.9	9.8
Vermont	5.3	3.5	1.8
Virginia	21.3	38.3	(17.0)
Virgin Island	1.5	0.4	1.1
Washington	39.4	29.0	10.4
West Virginia	12.3	11.5	0.8
Wisconsin	34.2	34.1	0.1
Wyoming	6.1	4.0	2.1

Source: Developed from Congressional Research Service analysis of U.S. Department of Labor data set forth in Unemployment Insurance Program Letter No. 25-86.

D. Conclusions

The nature of UC administration, with States having the operational responsibility and DoL the budgetary control, ensures that there will always be tension between the two levels of government over administrative funding. In the particular situation addressed in this study, it appears that recent downward pressures on funding have led to some deterioration in State activities necessary to the integrity of UC operations. The financial pressures seem to stem from the budgetary constraints that confront the Federal Government generally, and DoL specifically. Whether funding levels are too low relative to declining workloads in most States hinges on how overhead rates have changed as States' variable costs have declined.

The DoL's procedures for allocation of funds among the States have been called into question by some State agencies. DoL could resurrect its prior approach to allocations by devoting more resources to that activity, or it could work out a new methodology that would meet some of the States' criticisms. However, the recent distribution of FUTA tax dollars among the States produces winners and losers based on program characteristics that vary by State and are not subject to DoL's control. Any reasonable allocation technology would probably continue this pattern unless a State's allocation were made partially dependent on how much in taxes the State's employers have paid.

States have reason to complain that funding methods make advance planning for staffing difficult. This difficulty seems to lie more in the base/contingency approach to commitments by DoL and the levels at which base funding is set rather than to improper short-run workload forecasts. However, an underlying problem inherent in the system is that a State's workload may fluctuate greatly from year to year.

III. LEGISLATIVE PROPOSALS

A. Benefit Financing

1. Introduced Bills

Four bills addressing FUTA tax credit reductions were introduced in the 100th Congress. Credit reductions are used to force loan repayments by States that have had unpaid loans longer than 22 to 34 months. These bills would ease the repayment requirements under certain conditions.

Three bills, S. 1254 (Senator Heinz), title V of H.R. 2676 (Representative Pease), and H.R. 2801 (Representative Yatron), would amend FUTA to limit the reduction on the tax credit applicable to employers in certain States which have outstanding loan balances. These bills would reduce an applicable credit reduction by 0.1 percentage point if a State had outstanding loans for each of 3 prior years and, for those same years, the State's UC program ran a surplus of revenues over benefit payments. Further credit reductions would be applicable for a State that continued to meet this criterion and also satisfied determinations of the Secretary of Labor in regard to the State's tax effort and account solvency.

H.R. 3031 (Representative Livingston) would amend title XII of the Social Security Act to provide that a State with long-term unemployment problems and an insolvent UC account would not be charged with interest for specified periods if the State were to reduce its outstanding loan balances such that repayment were completed by the end of FY 1991. This bill would also amend FUTA to limit, in the case of any such State, any reduction in tax credits that might apply to taxpayers in that State such that the reduction could not exceed the tax credit reduction applicable for 1987.

2. Discussion

These introduced bills all have in common an effort to give relief to States that have been affected by measures that force State repayment of loans. The proposed relief is tied to evidence that States are making significant efforts to reduce their outstanding debt. Advocates for the States argue that the current tax credit reductions are harmful to the States' ability to maintain adequate benefits and constitute penalties aimed at their past, not their current, fiscal behavior. Opponents of relief believe that such measures would serve to slow down debt repayment and would benefit the States that showed the least fiscal responsibility during the 1970s, when much of the outstanding debt was first incurred.

B. Administrative Financing

Three specific proposals have been offered to change the present approach to administrative funding: a proposal of the National Governors' Association (NGA); a proposal supported by a coalition of 13 States and dubbed "The Equity Act," and a proposal by the Reagan Administration. These proposals are described briefly below.

1. The National Governors' Association (NGA) Proposal

The allocation of FUTA taxes to ESAA would be increased from the 1987 level of 0.48 percent of taxable payroll to 0.54 percent. 16/ The annual appropriation would have to be at least 90 percent of ESAA collections. Each State would be guaranteed a minimum return of their employers' taxes, perhaps 85 percent, but not at the expense of reducing funding levels for any State. Funds would be allocated to States by DoL in the form of a modified block grant rather than by detailed budget requirement estimates. Added administrative funding would be provided when rapid increases in unemployment occur, regardless of whether the extended benefits (EB) program has been triggered.

2. The Equity Act

Draft legislation developed independently from NGA is supported by a coalition of 13 States. This proposal calls for States to collect the FUTA tax and retain 0.50 percent of taxable payroll for administration of the regular State programs. States must agree to a "maintenance of effort" provision to assure that programs are operated at or above FY 1985 levels. ESAA balances in excess of $1 billion would be distributed to the States for certain purposes, such as capital expenditures, reserves for recessions, and tax credits for employers. State programs would still be required to conform with Federal rules for the benefit programs.

16/ This change was enacted in the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-273), effective in 1991, after expiration of the temporary 0.2 percent surtax. For 1988, 1989 and 1990, ESAAs allocation of FUTA taxes under P.L. 100-273 amounts to .52 percent of taxable payroll.

3. The Reagan Administration Proposal

The net Federal FUTA tax would be 0.11 percent and would be collected by the States. UC would be entirely State-funded. Some "maintenance of effort" would be necessary to meet DoL standards. There would be no distribution of ESAA balances except as already provided in law. Administration of EB would be reimbursed by DoL at a 50-percent rate. Requirements to conform to Federal benefit rules would be retained.

4. Discussion

All three proposals have a common objective: giving the States more control over the level of administrative funding for their programs. The NGA proposal would achieve this goal without significant changes in the Federal-State administrative arrangement. The Equity Act would make substantial changes in this arrangement, and the Reagan proposal would convert the system into a State-run system with a starting point that conforms with prior levels of effort.

Another approach not formally advocated at this time would be to handle administrative funding through a formula matching grant, as has been done for State welfare and medicaid programs. States would commit funds for administration that would be matched by Federal grants based on a formula. The formula could be the same for all States, or it could vary by taking into account certain State differences. The matching approach was, in fact, recommended in the 1944 annual report of the Social Security Board and repeated in four subsequent reports. The Board's primary reason for the recommendation was to give States financial incentives for "economical administration." 17/

Other options could be considered to address other issues raised by the States. For example, the deficit reduction law could be amended to exempt UC administrative grants from sequestration. Another option would be to revise the Social Security Act to place tighter constraints on the Secretary of Labor's authority in allocating funds. A specific methodology, such as the Cost Model approach, could be required in law. Another option would be for the Appropriations Committees to address the questions of the proper level of base funding and the timing of contingency funding commitments.

17/ Haber, William and Murray, Merrill G. Unemployment Insurance in the American Economy. Richard D. Irwin Inc. Homewood, Ill. 1966. p. 410.

CHAPTER 8: HAS THE COUNTERCYCLICAL ROLE OF UNEMPLOYMENT COMPENSATION CHANGED?*

The countercyclical role of Unemployment Compensation (UC) refers to the program's impact on the national economy. During periods of widespread unemployment, the program helps maintain levels of aggregate spending in the economy by assuring some purchasing power for unemployed workers. Revenues from UC also fall during recessions, as payrolls shrink. This responsiveness to economic change may help "stabilize" the economy.

The term "countercyclical" refers to changes in the program's levels during phases of the business cycle. Net UC spending increases during downturns in the business cycle and decreases during upturns; thus, it is seen that UC spending moves "countercyclically," in the opposite direction of the economic trend.

However, UC's actual countercyclical impact must be examined in the context of the total fiscal policy of the Federal Government and its other economic policies. This is because the capacity of Federal fiscal policy to reduce economic fluctuations is dependent upon whether the _entire_ Federal budget is in surplus, deficit, or balance. Hence, this chapter first describes the Federal role in economic stabilization and then shows how UC contributes to Federal fiscal policy. The chapter finds that high budget deficits, which continued growing until 1984, have presented the major challenge to UC's countercyclical role in this decade.

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* This chapter was prepared by Gene Falk of the Education and Public Welfare Division, Congressional Research Service.

I. THE FEDERAL GOVERNMENT AND ECONOMIC STABILIZATION

The Federal Government has a wide range of policies that affect economic activity. It manages the currency, purchases a relatively large share of gross national product (GNP) (8.5 percent in calendar year 1987), taxes and transfers income to households and businesses, issues and liquidates Federal debt, and engages in a variety of other economic transactions, both domestic and international.

"Countercyclical fiscal policy" refers to the use of Government's taxing and spending policies to reduce fluctuations in the economy. The basic theory of countercyclical fiscal policy is that, in times of recession, the Government should pursue "expansionary" policies, increasing spending (and, often, borrowing) and reducing taxes. In times of inflationary growth, the Government should pursue "contractionary" policies, reducing spending and increasing taxes.

Economists have long debated the efficacy of fiscal policy, particularly that of public borrowing. The expansionary effects of deficits may be totally or partially offset, or reversed, by reductions in private investment and/or consumption resulting from financing deficits through the issue of Government bonds. Government deficits may "crowd out" private spending directly or indirectly. The former can occur when Government spending replaces private spending; the latter when higher interest rates reduce private investment and interest-sensitive consumption. The contractionary effect of a Government budget surplus may also be offset if former bondholders spend funds obtained through the liquidation of Government bonds.

Fiscal policy is only one of the policy instruments the Federal Government uses to affect the economy, monetary policy being the other major stabilization tool. The effectiveness of a fiscal program depends, in part, on how the Federal Reserve Board manages the money supply. For example, the effects of an "expansionary" fiscal policy can be partially or totally offset, or even reversed, by restrictive monetary policy. Moreover, other economic policies of the Government, such as tax and transfer policies, affect incentives for work and investment that help determine aggregate levels of economic activity.

II. UC AND THE FEDERAL GOVERNMENT'S FISCAL POLICY

The UC system is only one Government program. During the recession year 1982, UC spending accounted for 3.2 percent of all Federal outlays, and UC receipts were 2.7 percent of all Federal receipts; in the expansion year of 1987, UC outlays were only 1.8 percent of total Federal spending, while UC receipts were 3.0 percent of all Federal receipts.

The UC program has traditionally been important in countercyclical policy since the program responds automatically and rapidly to changes in the economy. During recessions, higher claims for benefits automatically increase spending; higher payrolls during periods of economic growth cause increases in revenues.1/ UC is an "automatic stabilizer," since changes in revenues and outlays occur without action by Congress or the President. On the other hand, some forms of spending that are considered countercyclical and often promoted in response to a recession, such as public works, do require action by Congress and the President. In such programs, there is usually a lag between the provision of spending authority and actual cash outlays; thus, a recession may be long over by the time a discretionary countercyclical action takes effect.

The UC program's countercyclical effect operates via its impact on Federal tax revenues, Federal outlays, and borrowing needs in the following manner:

1/ The automatic response of UC outlays occurs because the program is an entitlement; moreover, the UC trust fund has permanent spending authority, with all assets of, and receipts to, the trust fund automatically appropriated. The level of spending in UC is determined by: (1) eligibility requirements set by States, (2) the number of unemployed eligible and filing claims, and (3) benefit levels set by States. Congress and the President, however, can influence UC receipts and spending by changing substantive law.

- o States collect payroll taxes from employers. These payroll taxes are sent to the Federal Government, deposited into Treasury accounts, and credited to State accounts in the Federal Unemployment Trust Fund. All State deposits are tax revenue to the Federal Government.

- o When benefit payments are made, States "draw down" their credits in the Unemployment Trust Fund. The Federal Government transfers funds to the States from Treasury accounts. All such transfers of funds to States for benefit payments are outlays from the Federal Government.

- o During any particular period, the difference between unemployment revenues and outlays measures the program's impact on the budget deficit (or surplus) and, hence, on the borrowing needs of the Federal Government.

To understand the program's impact on Federal finance, two questions must be asked. When the UC revenue is received, where does the money go? When UC outlays are made, from where does the money come? The answer to both questions is not the UC trust fund but rather the set of bank accounts maintained by the U.S. Treasury and used as repositories for the day-to-day financial transactions of the Federal Government. 2/ No cash is exchanged between these accounts and the UC trust fund. As will be discussed later, the UC trust fund is simply an accounting mechanism to accumulate spending authority for benefit payments.

To discuss the economic impact of UC fiscal flows, it is necessary to consider the fiscal position of the entire Federal Government. First, consider the case of a UC surplus, where Federal UC revenues exceed outlays. A surplus arises during economic expansions. If the total Federal sector had a balanced budget or surplus, a UC surplus would be contributing to such a contractionary fiscal policy. If the entire Federal Government were in deficit, a UC surplus

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2/ The U.S. Treasury, like other economic units, keeps money balances in bank accounts to finance day-to-day transactions. These accounts are kept with both the Federal Reserve and commercial banks. The Treasury's money balances are typically small when compared with the Federal Government's total level of fiscal activity. At the end of 1987, the Treasury's money balances were $36 billion, compared with total 1987 receipts of $845.1 billion and outlays of $1,002.1 billion. Source of 1987 data: U.S. Board of Governors of the Federal Reserve System. Federal Reserve Bulletin. January 1988. Table 1.38, p. A28.

would reduce Federal borrowing needs, but the Federal Government still would be in deficit. The Federal Government would continue to borrow from the public to meet the excess of its total expenditures over its total revenues. UC would be acting countercyclically; but overall Federal fiscal policy would not be.

Moreover, there may be an indirect effect of a UC surplus during a period of general deficits that offsets the countercyclical impact of the UC surplus. Higher unemployment revenue gives the Federal Government a greater total tax revenue to spend. If this higher revenue permits policymakers to forgo raising other taxes, increasing borrowing, or cutting other program outlays, UC surpluses would, in effect, be financing other Government spending. 3/

When UC is in deficit, and its benefit payments exceed revenues, the resources to pay benefits will come from either current taxation or borrowing. No cash "went into" the UC trust fund; therefore, there is no cash to "come out of" the fund. If the Federal Government is in deficit, UC adds to the Federal deficit, increasing borrowing needs.

Table 8.1 shows the impact of UC on the budget totals for FY 1982 and FY 1987. During FY 1982, outlays exceeded receipts, resulting in a UC deficit that increased the Federal budget deficit. In FY 1987 the reverse happened: receipts exceeded outlays, reducing the Federal budget deficit.

3/ Similar issues arise in examining the impact the social security program has on the budget. See: U.S. Library of Congress. Congressional Research Service. Social Security: Its Impact on the Federal Budget. CRS Report for Congress No. 88-218 EPW, by David Koitz. Washington, 1988.

TABLE 8.1. Unemployment Trust Fund: Federal Budget Impacts
Fiscal Years 1982 and 1987
(millions of $)

	1982	1987
Unemployment trust fund		
Revenues	$ 16,600	$ 25,418
Outlays	24,054	18,094
Surplus/Deficit	-7,454	7,324
All other Federal programs		
Revenues	601,166	828,725
Outlays	721,652	986,492
Surplus/Deficit	-120,486	-157,767
Total Federal Government		
Revenues	617,766	854,143
Outlays	745,706	1,004,586
Surplus/Deficit	-127,940	-150,444

Source: Table prepared by the Congressional Research Service. Data are from U.S. budget documents for FY 1984 and FY 1989.

In FY 1982, the Unemployment Trust Fund added almost $7.5 billion to the Federal deficit, an increase in the Federal deficit of 6.2 percent. In FY 1987, the trust fund had a $7.3 billion surplus, but the remainder of the Federal Government was further in deficit. As the table shows, in the absence of the Unemployment Trust Fund, the deficit in FY 1987 would have been 4.6 percent higher, $157.8 billion compared with the actual $150.4 billion.

In these years, UC spending moved in the opposite direction of the economic trend. It added $7.5 billion to the spending stream in a bad economic year (1982) and subtracted $7.3 billion from the spending stream in a prosperous year (1987). However, the $7.3 billion subtracted from aggregate Federal spending in FY 1987 was far more than offset by a higher deficit in the remainder of the Federal Government. Excluding UC, the deficit was one-fourth higher in FY 1987 than it was in FY 1982. Overall Federal fiscal policy in 1987 was not restrictive.

III. THE UNEMPLOYMENT TRUST FUND

In the previous section, only passing mention was made of the UC trust fund since the trust fund is not directly relevant to an examination of the fiscal role of the UC system. Fiscal policy is concerned with the Government's transfers of resources to and from the private sector, and the UC trust fund is not involved in these transfers. Resources are transferred via the general accounts of the Treasury. The trust fund may well influence fiscal policy, however, since its informational role may affect the behavior of policymakers at both the Federal and State levels. That is, low trust fund reserves may cause policymakers to consider tax increases or benefit cuts.

As mentioned, UC receipts are deposited into the general accounts maintained by the Treasury; benefit payments are made from these same accounts. When receipts exceed outlays, the surplus is credited to the UC trust fund. The credits are made in the form of interest-bearing U.S. Government securities that are "held" by the trust fund. These "assets" of the trust fund plus UC receipts constitute the budget authority that provides the legal authority to spend, since trust fund reserves plus all new UC revenue are permanently appropriated for the program. Although the assets represent a resource for the program, giving it the legal authority to spend, they do not represent a resource to the Government. They are not a source of money for making benefit payments. Rather, they are IOUs from the Treasury to one of its own trust funds. The role of the trust fund is that of an accounting device. The trust fund merely records and accumulates spending authority for the UC system.

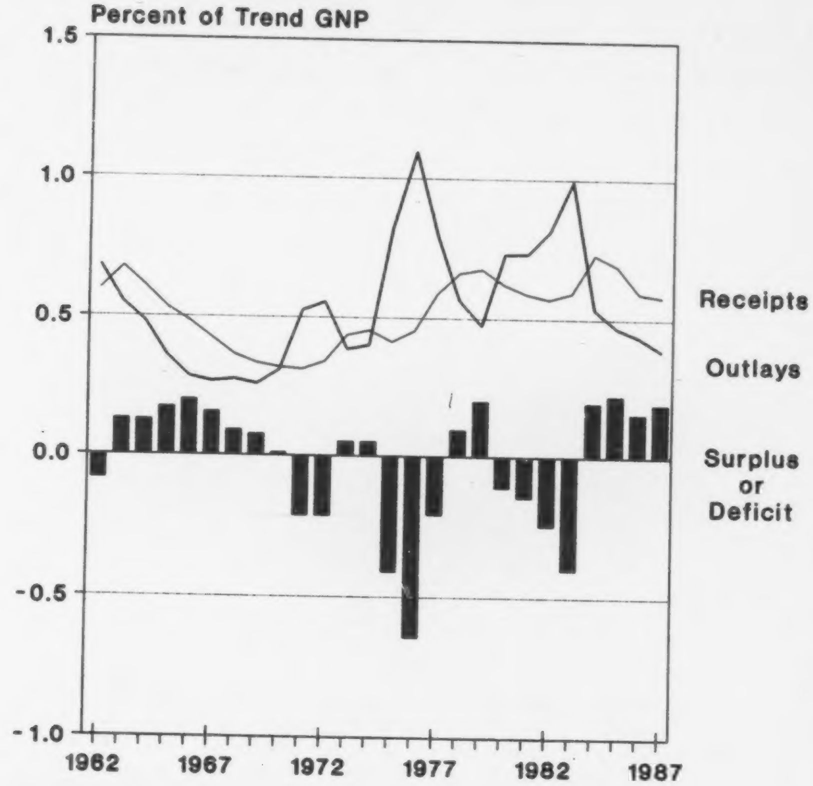
IV. UC AND THE FEDERAL BUDGET: 1962-1987

Chart 8.1 shows trends in UC receipts, outlays, and surpluses or deficits for 1962 to 1987. 4/ The surplus/deficit is the difference between UC receipts and outlays. These measures are shown in relation to trend GNP. 5/ Trend GNP represents economic activity over time as if GNP had grown at a constant rate from 1962 to 1987. It is a measure that eliminates cyclical fluctuations in the GNP figures, thereby highlighting the cyclical variations in UC activity.

4/ UC outlays represent all outlays for budget subfunction 603, including outlays for benefit payments and administrative expenses. Receipts are social insurance revenues reported for unemployment compensation in Historical Tables. Source: U.S. Office of Management and Budget. Historical Tables, Budget of the United States Government, Fiscal Year 1989. Washington, U.S. Govt. Print. Off., 1988.

5/ Trend GNP was calculated by determining the average annual rate of growth in GNP between 1963 and 1987. Trend GNP for each year represents the previous year's GNP increased by this average annual rate of growth.

Chart 8.1: Unemployment Compensation Receipts, Outlays, Surpluses and Deficits As a Percent of Trend GNP, Fiscal Years 1962 - 1987



Source: Chart prepared by CRS based on data from Historical Tables, Budget of the United States Government, Fiscal Year 1989.

The variation in the UC deficit generally mirrors the variation in program outlays. Receipts fell from 0.68 percent of trend GNP in 1963 to 0.31 in 1972, then rose from 1971 to 1979 and have changed little since, except for cyclical variations. UC outlays, on the other hand, have fluctuated dramatically. As a percent of trend GNP, outlays peaked at 0.55 percent in 1973, 1.10 percent in 1976, and 0.99 percent in 1983. The UC deficit was also the greatest in these same years: 0.21 percent in 1973, 0.64 percent in 1976, and 0.40 percent in 1982.

It is instructive to compare the information in chart 8.1 for the years of the two most recent major recessions: 1973-1975 and 1981-1982. The UC deficit relative to trend GNP was substantially greater in the mid-1970s than in the early 1980s because receipts were higher and outlays lower in 1981-1982 than in 1974-1975.

The 1981-1982 recession was more severe than the 1973-1975 recession. Real GNP fell 1.8 percent from 1973 to 1975; it fell 2.5 percent from 1981 to 1982. The unemployment rate averaged 8.3 percent in 1975 and 9.5 percent in 1982. However, despite the more severe recession, UC outlays and the UC deficit were lower in the early 1980s than in the mid-1970s as a share of trend GNP; thus, by this measure, the countercyclical impact of UC was less in the early 1980s than in the mid-1970s.

The drop in the share of trend GNP accounted for by UC in the 1980s, compared with the mid-1970s, probably reflects a combination of: (1) Federal legislation to reduce program costs; (2) State initiatives to bring costs more in line with available revenues; and (3) the downward trend in the proportion of the unemployed who receive benefits. These issues are discussed in other chapters of this report.

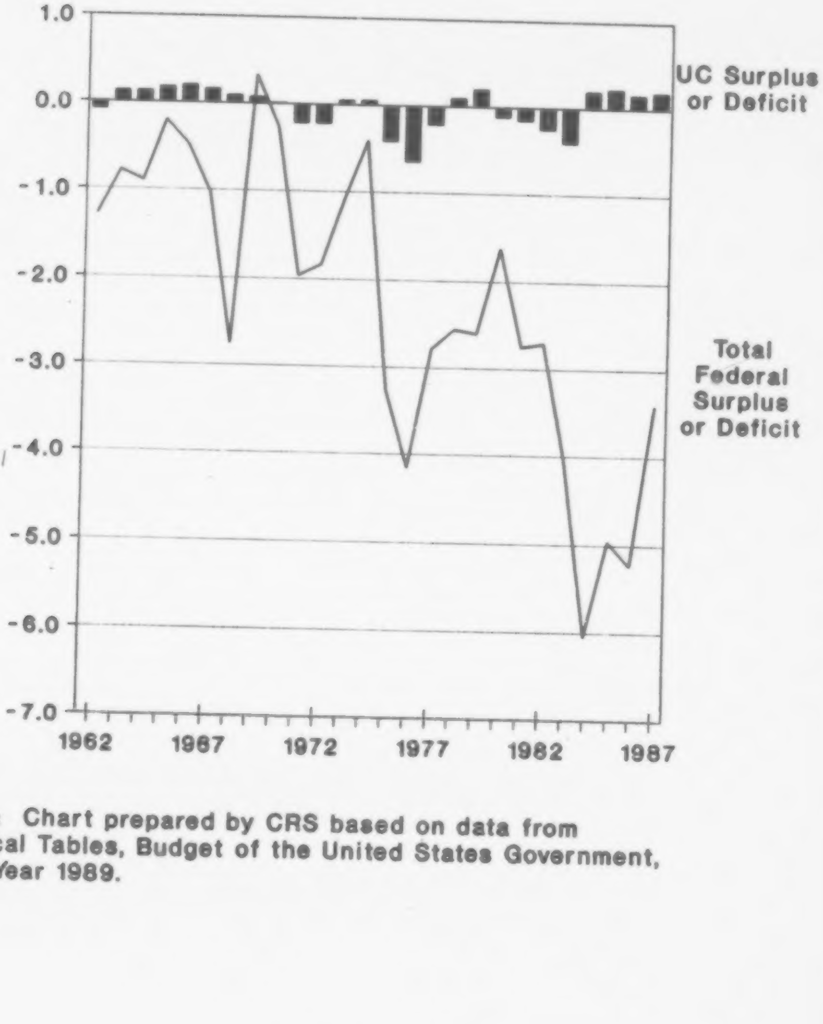
A policy that also reduced UC's countercyclical role in the 1980s is the taxation of benefits. Taxes on benefits are not withheld at the time of payments, but are included in the recipient's tax liability, usually due by the next April 15. Revenue from the taxation of UC benefits is not shown in chart 8.1. However, these receipts do affect countercyclical policy by (1) adding to the overall revenue of the Federal Government the following year and (2) possibly causing beneficiaries to keep some of their UC benefits in money balances for tax payments, rather than spending the full sum.

V. THE CHANGING CONTEXT FOR UC's FISCAL ROLE

The traditional rules of countercyclical fiscal policy apply to periods of either inflation or unemployment. In periods of inflation, the rules say "contract," and in periods of unemployment, they say "expand." In the 1970s, however, the economy was characterized by stagflation: inflation and unemployment occurring together. High unemployment caused an increase in UC spending, contributing to the Federal deficits that occurred in each year during the 1970s. These deficits, which could have been expansionary, occurred while the economy experienced high and accelerating inflation.

The challenge to UC's countercyclical role in the 1980s has been, and continues to be, the persistently high Federal deficits. In the 1982 to 1987 period, UC countercyclical changes were small compared with the overall excess of Federal spending over revenues (see chart 8.2). As a percent of trend GNP, the Federal deficit increased from 1.6 percent in 1980 to 6.0 percent in 1984. The overall Federal deficit has since declined, to 3.4 percent of trend GNP in 1987. The UC surpluses of 1984-1987 helped to reduce these high deficits, but only slightly.

Chart 8.2: The Unemployment Compensation and Total Federal Surpluses or Deficits As a Percent of Trend GNP, Fiscal Years 1962 - 1987



Source: Chart prepared by CRS based on data from Historical Tables, Budget of the United States Government, Fiscal Year 1989.

VI. CONCLUSION

As measured by the UC deficit relative to trend GNP, the system had a smaller countercyclical impact during the 1981-1982 recession than during the 1973-1975 recession. However, this impact should be examined in the context of the total fiscal policy of the Federal Government and its other economic policies. In the 1980s, the huge Federal deficit has had the effect of relegating to a secondary role UC's automatic machinery for attempting to stimulate a depressed economy or restrain an inflationary expansion. There are, of course, other policy tools, but the alternatives may take longer to implement and be more difficult to time compared to the automatic responses of UC.

Whether the UC system regains the economic stabilization role that its designers intended depends, in part, on the future fiscal position of the Federal Government. If the deficit were to be reduced substantially or eliminated, UC would exert a stronger influence on the overall direction of fiscal policy. This result could be accomplished through the regular budget, authorization, and appropriation process or forced by the Gramm-Rudman-Hollings deficit reduction law or the eventual adoption of a balanced budget amendment to the U.S. Constitution.

Even if the deficit were substantially reduced, the UC countercyclical role might remain diminished. Policy changes of the past decade have included lowering net UC benefits through taxation and reducing the role of the Extended Benefits (EB) program. Attempts to strengthen their trust fund reserves have led some States to adopt measures for raising UC taxes during recessions. These changes, even in a balanced budget environment, could result in reducing the countercyclical impact of UC in a future recession.

VII. LEGISLATION

Most legislative issues directly concerning UC's countercyclical impact involve efforts to control or eliminate persistent Federal budget deficits. Reducing the deficit could enhance UC's countercyclical role. However, if the measures taken to reduce the deficit are extremely restrictive (for example, requiring a balanced budget regardless of the state of the economy), UC's countercyclical role could be rendered nil.

The Balanced Budget and Emergency Deficit Control Act of 1985 as amended, known as Gramm-Rudman-Hollings, sets deficit targets (maximum deficit amounts) that Presidential budget proposals and congressional budget resolutions must meet. It also has a procedure, called sequestration, to reduce spending automatically if deficit targets are not met. UC outlays for regular State benefits, which are paid by State UC taxes, and the State-funded share of EB are exempt from these automatic cuts, but outlays for the Federal-funded share of EB and for program administration, paid by the net FUTA tax, are subject to sequestration. The deficit targets for 1989 to 1993 are as follows:

	($ billions)
1989	$136
1990	100
1991	64
1992	28
1993	0

Many provisions of Gramm-Rudman-Hollings would not be invoked if either the Office of Management and Budget (OMB) or the Congressional Budget Office (CBO) should estimate that real economic growth will be zero in any two consecutive quarters of the coming fiscal year or if the Department of Commerce should report that growth has been less than 1 percent in any two consecutive quarters of the current fiscal year. Thus, the budget-cutting provisions of the law would not apply if UC outlays helped enlarge the Federal deficit during recessions. In such a case, Federal outlays for the Federal share of EB would not be cut.

Proposed constitutional amendments to require a balanced Federal budget could affect the countercyclical role of UC. This role would be sharply curtailed, if not eliminated, if the amendment required a balanced budget regardless of the state of the economy. However, some of these proposals provide exceptions to the balanced budget requirement, waiving it during periods of recession. Such an amendment would preserve UC's countercyclical role.

A second legislative issue that relates to UC's countercyclical role is that of budget coverage. Periodically, proposals are made to remove UC trust fund receipts and outlays from the official budget totals on the premise that UC supports itself through a dedicated tax. Social security is financed in a manner similar to that of UC. The Gramm-Rudman-Hollings law removed social security trust fund receipts and outlays from the Federal budget, but provided that they be counted in determining whether deficit targets are met. 6/ It also provided for some procedural safeguards against legislation proposing to cut social security benefits that might be offered during the congressional budget process.

6/ The Social Security Amendments of 1983 (P.L 98-21) required that beginning with the budget for FY 1993, social security be taken off-budget. Gramm-Rudman-Hollings changed this requirement, taking social security off-budget beginning with the FY 1986 budget.

The removal of UC from official budget totals would not affect in any manner the way in which the Federal Government makes its financial transactions (outlays for benefits and administration, UC receipts). It also would not affect the amount the Federal Government has to borrow from the public. The Government would continue to issue securities to cover shortfalls of total Federal revenue. Since these financial transactions constitute fiscal policy, the removal of UC from the budget would not have any direct effect on UC's countercyclical role. However, if the removal of UC from the budget were to change the rules for consideration of UC legislation or the nature of the actual legislation, such a change could indirectly affect fiscal policy.

CHAPTER 9: HOW CAN TRAINING AND EMPLOYMENT SERVICES BE IMPROVED FOR THE LONG-TERM UNEMPLOYED?*

I. INTRODUCTION

Long-term unemployment is a chronic phenomenon which abates, but does not disappear, when overall unemployment rates go down. The number of long-term unemployed workers and the average length of their jobless spells go up and down with total unemployment. But even during good economic times, a significant number of unemployed workers remain out of work for several months and longer. For example, when overall unemployment reached a 14-year low of 5.3 percent in June 1988, more than 1.5 million people had been jobless 15 weeks or more.

Unemployment compensation (UC) was created in the 1930s to protect American workers during temporary periods of unemployment. As explained in chapter 6 of this report, workers who remain jobless long enough to exhaust their regular UC benefits may be eligible for extended payments during periods of high unemployment in their State. However, training and related employment services are often promoted as solutions to the long-term employment problems of those workers who seem unable either to enter or rejoin the labor market on their own, regardless of the health of the economy.

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Since 1933, job listings and some counseling and placement services have been available to all American workers through the U.S. Employment Service (ES). For nearly 30 years, the Federal Government has also operated employment and training programs for specific population groups considered disadvantaged in the labor market. Typically, the groups served were economically disadvantaged individuals, often public assistance recipients or unemployed youth. Except for services provided through the ES, training and related programs have been developed and administered separately from the UC system, since the traditional client groups for training programs have not included substantial numbers of UC beneficiaries. In recent years, programs have also evolved for "dislocated" workers, who are not necessarily poor and are often eligible for UC benefits. As changes have occurred in the composition of the structurally unemployed, policymakers have begun to look at innovative approaches to training and employment services, including attempts to connect the UC system more directly with these services.

This chapter briefly describes characteristics of the long-term unemployed population, and then focuses on the following existing programs: the U.S. ES; Job Training Partnership Act (JTPA) programs for both economically disadvantaged and dislocated workers; and Trade Adjustment Assistance (TAA). The role of education in worker preparation and treatment of training under Federal UC law also are briefly described. The chapter contains a discussion of current policy issues, including proposals to use UC funds to promote reemployment, possible changes in existing Federal programs, and private sector issues. Finally, the chapter closes with a statement of conclusions and a description of current legislative proposals. Discussion in this chapter is not limited exclusively to workers receiving or exhausting UC benefits, but rather addresses issues related to the overall population of unemployed workers.

II. WHO ARE THE LONG-TERM UNEMPLOYED?

In January 1988, when civilian unemployment was at the relatively low rate of 5.7 percent, almost a fourth of the unemployed--1.8 million individuals--had been out of work for at least 15 weeks, a period of time often used to mark the onset of long-term unemployment. These long-term jobless workers were somewhat more likely than the total unemployed population to be men, black, and older.

A. Long-Term vs. Total Unemployed

As table 9.1 shows, 64 percent of long-term unemployed workers in January 1988 were men, compared with 57 percent of all unemployed, and 25 percent of the long-term unemployed were black, compared with 20 percent of all unemployed. Among long-term unemployed workers, 26 percent were between the ages of 16 and 24, compared with 35 percent of all unemployed; and 24 percent of the long-term unemployed were age 45 or older, compared with 17 percent of the unemployed population at large.

The proportion of never married people among the long-term unemployed was somewhat lower (37 percent) than among the unemployed population in general (42 percent). At the same time, the proportion of long-term unemployed people who were separated, widowed or divorced was slightly higher (21 percent) than for all unemployed (17 percent). Long-term unemployed people were slightly more likely to be job-losers (jobs lost involuntarily rather than through voluntary quits) than unemployed workers in general (54 percent, compared to 50 percent).

TABLE 9.1. Selected Characteristics of Unemployed and Long-Term Unemployed Individuals, January 1988

	Total unemployed a/	Long-term unemployed a/
Gender:		
Male	57%	64%
Female	43	36
Race:		
White	76	71
Black	20	25
Age:		
16-19	16	10
20-24	19	16
25-44	47	50
45-54	10	13
55 or older	7	11
Marital status:		
Married	41	42
Separated/widowed/ divorced	17	21
Never married	42	37
Reason for unemployment:		
Job loser	50	54
Job leaver	15	13
Reentrant	25	25
New entrant	10	9

a/ The number of total unemployed is 7,603,000. The number of long-term unemployed is 1,811,000. Long-term refers to individuals unemployed at least 15 weeks.

Sources: U.S. Department of Labor. Bureau of Labor Statistics. Employment and Earnings. Tables A-15 and A-17, Feb. 1988. Data not seasonally adjusted.

B. Male/Female Differences

Certain characteristics--specifically race, marital status and reason for unemployment--become more significant when comparisons are made between men and women, as seen in table 9.2. For example, black women made up 31 percent of all women who were jobless for 15 weeks or longer, while black men comprised 22 percent of all long-term jobless men. Among the long-term unemployed, women were less likely than men to be either married or never married, and were much more likely than men to be separated, widowed or divorced--28 percent compared with 16 percent. The most striking difference between long-term unemployed men and women was in the proportions who were job-losers as opposed to workforce reentrants. About two-thirds of the men were job-losers, compared with slightly less than half of the women; and 18 percent of men were re-entering the workforce, compared with 37 percent of women. Most of these male/female differences were true of the unemployed population in general, but they were more pronounced among the long-term unemployed.

TABLE 9.2. Characteristics of Unemployed and Long-Term Unemployed Individuals, by Sex, January 1988

	Total unemployed a/		Long-term unemployed a/	
	Male	Female	Male	Female
Race:				
White	79%	73%	74%	65%
Black	18	24	22	31
Age:				
16-19	16	17	9	10
20-24	20	18	18	12
25-44	45	49	48	54
45-54	10	10	13	14
55 or older	9	6	13	9
Marital status:				
Married	40	41	44	38
Separated/widowed/ divorced	13	23	16	28
Never married	47	37	40	33
Reason for unemployment:				
Job loser b/	66	40	64	47
Job leaver b/	13	18	14	12
Reentrant b/	18	36	18	37
New entrant b/	3	5	4	5

a/ The unemployed total 4,364,000 males and 3,239,000 females; the long-term unemployed total 1,157,000 males and 655,000 females. Long-term refers to individuals unemployed at least 15 weeks.

b/ Data shown in these categories exclude individuals aged 16-19.

Sources: U.S. Department of Labor. Bureau of Labor Statistics. Employment and Earnings. Tables A-15 and A-17, Feb. 1988. Data not seasonally adjusted.

C. Dislocated Workers

The twin recessions of the early 1980s have focused considerable attention recently on one specific segment of the unemployed: dislocated workers. These workers generally are characterized as experienced workers permanently displaced from declining industries, occupations, or regions and whose skills may have become obsolete. Dislocated workers are clearly not the majority of the unemployed; in January 1986, unemployed dislocated workers accounted for less than 12 percent of all unemployed workers (900,000 out of a total of 7.8 million total unemployed). 1/ However, dislocated workers are often thought to be highly vulnerable to long-term unemployment and have been the focal point of many recent employment and training proposals.

To learn more about this group, the Bureau of Labor Statistics (BLS) conducted two surveys of workers displaced from jobs that they had held at least 3 years. The first survey covered workers displaced between January 1979 and January 1984, and the second covered displacements between January 1981 and January 1986. The surveys confirmed that dislocated workers were indeed vulnerable to long spells of joblessness, although the majority did ultimately go back to work. Of displaced workers in the second survey who were still unemployed in January 1986, BLS found that 60 percent had been out of work for 15 weeks or longer and that 38 percent had not worked in 27 weeks or longer. Even among all dislocated workers in the second BLS survey, including those who had

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1/ U.S. Department of Labor. Bureau of Labor Statistics. Reemployment Increases Among Displaced Workers, Press Release, Oct. 14, 1986; Employment and Earnings, Feb. 1986.

returned to work by January 1986, 54 percent had experienced jobless spells of 15 weeks or more, and 38 percent had been out of work for 27 weeks or more. 2/

In its second survey, BLS found that a total of 5.1 million workers had been displaced from their jobs between January 1981 and January 1986, almost exactly the same as the number of workers displaced between January 1979 and January 1984. Of workers in the second survey, 67 percent were reemployed in January 1986, while 18 percent were still out of work, an improvement over the earlier survey, which found 60 percent reemployed at the end of the 5-year period and 25 percent still jobless. However, 44 percent of the workers who had obtained jobs by January 1986 were earning lower salaries than at their previous jobs, and 16 percent of workers had dropped out of the workforce altogether. Older workers and women were groups most likely to drop out of the labor force following dislocation. Most dislocated workers in the second survey were white (87 percent), male (65 percent), and between the ages of 25 and 54 (77 percent). About half had been displaced from jobs in the manufacturing sector. Tables 9.3 and 9.4 present data from the BLS dislocated workers surveys. Table 9.3 shows selected characteristics of dislocated workers identified in both surveys, and table 9.4 shows the January 1986 employment status of dislocated workers identified in the second survey, by selected characteristics.

2/ These statistics cannot be compared to official long-term unemployment rates reported by BLS. As reported in the special dislocated worker surveys, unemployment could have included periods when an individual was not actually in the labor force, while BLS' official definition of unemployment only considers times when an individual is actively seeking and available for work.

TABLE 9.3. Selected Characteristics of Workers Dislocated during 1979-1983 and 1981-1985

	1979-1983 dislocations a/	1981-1985 dislocations a/
Gender:		
Male	65%	65%
Female	35	35
Race:		
White	86	87
Black	12	11
Age:		
20-24	7	4
25-54	75	77
55-64	15	15
65 or older	4	3
Industry:		
Mining	3	3
Construction	8	6
Manufacturing	49	50
Transportation/ public utilities	7	7
Trade	14	13
Finance/insurance/ real estate	2	2
Services	10	10
Agriculture	2	3
Government	5	3
Employment status (as of January 1986):		
Employed	60	67
Unemployed	26	18
Not in labor force	14	15

a/ Dislocations total 5,091,000 between Jan. 1979 and Jan. 1984, and 5,130,000 between Jan. 1981 and Jan. 1986.

Sources: U.S. Department of Labor. Bureau of Labor Statistics. BLS Reports on Dislocated Workers. Nov. 30, 1984; and U.S. Department of Labor. Bureau of Labor Statistics. Reemployment Increases Among Dislocated Workers. Oct. 14, 1986.

TABLE 9.4. Workers Dislocated during 1981-1985 by Employment Status, as of January 1986

	Employed	Unemployed	Not in labor force
Total	66.9%	17.8%	15.3%
Gender:			
Male	70.9	18.6	10.5
Female	59.6	16.2	24.1
Race:			
White	68.2	16.2	15.6
Black	57.7	29.2	13.1
Age:			
20-24	69.1	23.2	7.7
25-54	72.5	18.1	9.4
55-65	47.4	17.6	35.0
65 or older	23.4	4.3	72.4
Industry:			
Mining	67.4	17.4	15.2
Construction	74.8	16.6	8.6
Manufacturing	65.9	18.2	15.9
Transportation/ public utilities	66.9	20.0	13.1
Trade	66.3	12.4	21.3
Finance/insurance/ real estate	73.5	12.5	14.0
Services	68.4	21.4	10.2
Agriculture	66.0	20.9	13.1
Government	63.0	18.9	18.0

Source: Horvath, Francis. The Pulse of Economic Change: Displaced Workers of 1981-85. Monthly Labor Review, Bureau of Labor Statistics, U.S. Department of Labor, June 1987. p. 3-23.

III. DESCRIPTION OF EXISTING SERVICES FOR THE UNEMPLOYED

A. U.S. Employment Service

The Wagner-Peyser Act of 1933 established the U.S. ES, to be administered in conjunction with the States as a public labor exchange for people seeking jobs and for employers seeking workers. The first major task of the new agency was to funnel millions of Depression-era unemployed workers into jobs and training programs created under the New Deal.

Initially, the Federal and State governments shared equally in the costs of ES, with States required to match Federal grants with an equal amount of State funds. However, after Congress enacted the Federal Unemployment Tax Act (FUTA) in 1935, receipts from that tax became available to finance part of ES. Currently, 97 percent of ES funding comes from the FUTA tax. The remaining 3 percent is appropriated from general revenues and is intended to cover the portion of the workforce not in insured employment.

Although ES is federally funded, it has been administered by the States except for a brief period of Federal administration during World War II. ES and the UC program have traditionally been intertwined, both through their financing structures, and through a requirement contained in the original Social Security Act of 1935 that unemployment benefits be paid to registered claimants through a State employment office. By the late 1930s, every State had established a State employment office. The number of local employment offices grew as it also became the task of ES offices to administer the work test for UC claimants (i.e., the requirement that UC beneficiaries be available for and seeking work).

From its beginnings as a referral and placement agency for many of the New Deal programs, and then as an adjunct of the UC system, ES has undergone numerous changes in its functions and priorities over the last 55 years. Although the Wagner-Peyser Act itself was not significantly amended until 1982, a wide variety of new responsibilities and tasks were assigned to ES as a result of other laws, regulations and executive orders. External factors also played a major role in shaping the course of ES. For instance, the impact of World War II on the American economy, and the needs of American employers and defense producers, dramatically affected the work of ES during the war and afterward, when millions of returning veterans flooded the labor market. The civil rights movement of the 1960s, and much of the social legislation enacted in that era, also was felt by ES, which shifted its focus to disadvantaged workers and members of minority groups.

A number of target population groups have been singled out at various times for special services from ES, including veterans, disabled individuals, economically disadvantaged workers, migrant and seasonal farmworkers, and welfare recipients. Meanwhile, ES has always had another client to serve: the employer community. Frequently, the need of employers for qualified workers has conflicted with requirements that ES serve special population groups. Thus, the agency has faced the sometimes difficult task of maintaining a reputation in the business community as a source of qualified labor while remaining sensitive to the needs of disadvantaged workers who might be more difficult to place in jobs.

The General Accounting Office (GAO) in 1982 identified 17 programs or activities then being conducted by ES, many of which were unrelated to the agency's original role as a labor exchange. 3/ GAO's 1982 inventory of ES functions included such activities as: monitoring employer compliance with regulations governing the employment of migrant and seasonal farmworkers, including transportation and housing inspections; processing employer applications to certify aliens as eligible to work in the U.S.; administering the work registration requirement contained in the food stamp program; and determining the impact of U.S. Department of Agriculture loans to rural businesses and industries.

This proliferation of functions and priorities, compounded by budget constraints, was one of several factors leading to major amendments of the Wagner-Peyser Act in 1982. In addition, ES grants at that time were allocated to States according to a resource allocation formula that tended to reward high placement rates at the expense of longer-term services, fostered competition among States, and discouraged interstate cooperation. The JTPA of 1982 replaced the Comprehensive Employment and Training Act (CETA) and completely revamped the country's employment and training system. One title of JTPA contained a series of amendments to the Wagner-Peyser Act that sought to coordinate ES with the new job training system and also to address some longstanding concerns about the operation of ES.

The 1982 amendments established a new funding formula for basic ES grants to States based on the relative size of each State's civilian labor force and unemployment rate. The ES planning cycle and process were made consistent with

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3/ U.S. General Accounting Office. Information on the U.S. Employment Service's Programs, Activities and Functions. HRD-82-71, Apr. 3, 1982.

those created for the rest of the new JTPA system. Further, the 1982 legislation precluded ES from taking on any function not related to its basic labor exchange mission unless specifically financed by another source. This latter provision responded to the concern that the various ancillary functions imposed on ES were diverting staff and resources from labor exchange activities.

The ES originally was appropriated an FY 1988 budget of $780 million, of which $57 million is used for various national activities, such as research, occupational testing analysis, an interstate job bank, alien labor certification, inspection of migrant labor housing, and administration of the targeted jobs tax credit. The remaining funds are allocated among States and used for such basic labor exchange functions as assessment, job search and placement, counseling, testing, occupational and labor market information, and referral to employers. An additional $15 million was provided to ES offices in an FY 1988 supplemental appropriation (P.L. 100-393).

States have wide discretion in designing their programs, which are intended to respond to specific State and local needs. Although ES does not directly provide skills training, it does refer individuals to appropriate training programs and educational institutions. The Department of Labor (DoL) estimates that, in program year 1988 (July 1, 1988 to June 30, 1989), ES will serve 18.6 million applicants and place 3.1 million individuals in jobs. In addition, ES received $125 million in FY 1988 specifically to provide for services to veterans.

B. Job Training Partnership Act

When CETA came before Congress for reauthorization in 1982, its reputation was tarnished by allegations during the late 1970s of fraud, abuse and mismanagement, particularly in public service jobs. Although amendments in 1978 had corrected many of the earlier problems, Congress chose in 1982 to create a new job training system and to allow the problem-plagued CETA to expire. JTPA succeeded CETA but differs from it in several significant ways.

During most of its years of operation, CETA provided public service employment, as well as training and related services, to economically disadvantaged individuals. (Public service employment was phased out in FY 1981.) A separate title existed exclusively for disadvantaged youth, and participants in most CETA-operated training programs were eligible for minimum wage, hourly training allowances. The program was almost exclusively run by the public sector, with participation by nonprofit community-based groups. Annual funding for CETA peaked in the late 1970s at more than $10 billion. CETA shrank to $3 billion by its last year in FY 1982.

The JTPA primarily provides training to participants and is specifically prohibited from offering public service employment. The law has strict limitations on the amount of funds which can be used for support services and administrative costs. Unless enrolled in on-job-training, where participants are hired by employers who are reimbursed for training costs, JTPA enrollees receive almost no income support. The program is administered jointly by local elected officials and a nationwide network of Private Industry Councils (PICs), composed of local business representatives and others interested in job training programs. Federal money is funneled through State Governors, who had played a relatively small role under CETA. Most services are focused on the economically disadvantaged, with a special emphasis on disadvantaged youth, although a separate title exists for dislocated workers who have permanently lost their jobs but are not necessarily low-income. The dislocated worker program was substantially revised and expanded under legislation enacted during the 100th Congress (P.L. 100-418).

The JTPA states that participation in the dislocated worker training program is deemed State-approved training for purposes of UC law. Thus, UC recipients, who are required to actively seek and be available for work unless enrolled in State-approved training, may continue to receive UC benefits while participating in a JTPA training program. Under JTPA as originally enacted, States were required to match dislocated worker grants with an equal amount of non-Federal funds, and were allowed to count half of the State-funded UC benefits paid to program participants as part of this match. The intent of this provision was to encourage States to provide early intervention in the form of training and related services for UC beneficiaries who were dislocated workers. As revised by P.L. 100-418, however, Federal dislocated worker grants no longer require non-Federal matching funds. The new law does encourage States to coordinate dislocated worker training programs with the UC system, and allows a portion of JTPA funds to be used for such coordination.

Another significant departure from past training programs is JTPA's use of mandatory performance standards. Local programs serving economically disadvantaged workers must meet national standards for placement rates and cost per placement, plus additional standards for services to youth and adult welfare recipients. Governors are required to establish placement rate standards for programs serving dislocated workers, although the Secretary of Labor sets a national goal for this standard. In addition, much JTPA training is provided through performance-based contracts. Under these contracts, training providers are not reimbursed for the full cost of training until training is completed and an agreed-upon number of participants are placed in jobs, often at an agreed-upon starting hourly wage.

The JTPA is funded in FY 1988 at $3.7 billion, of which $1.8 billion is appropriated for the title II-A block grant for the economically disadvantaged, and $287 million is available for the title III program for dislocated workers. Services under both titles include a wide range of classroom skill training and remedial education activities, job search assistance, on-job-training, and a very limited amount of supportive services and needs-based training allowances. The new legislation revising title III of JTPA (P.L. 100-418) allows some greater flexibility in providing needs-based allowances and support services to dislocated workers.

The DoL estimates that, at the FY 1988 funding level, 1.3 million individuals will enroll in title II-A programs, and 230,000 dislocated workers will be served under title III. In addition to these two programs, JTPA authorizes a summer jobs and training program and the Job Corps, both for economically disadvantaged youth, plus a series of nationally administered grants and contracts for special target population groups, such as Native Americans and migrant workers.

Table 9.5 shows the funding history of titles II-A and III of JTPA, and of JTPA as a whole, since FY 1984.

TABLE 9.5. JTPA Appropriations, 1984-1988
(in millions)

Fiscal year	Title II-A	Title III	Total
1984	$1,886.2	$223.0	$3,732.0
1985	1,886.2	222.5	3,648.7
1986	1,783.1	95.7	3,312.5
1987	1,840.0	200.0	3,656.1
1988	1,809.5	287.2	3,747.7

C. Trade Adjustment Assistance

All dislocated workers, generically defined, are potentially eligible for training and related assistance under title III of JTPA, to the extent that appropriations are available. A specific subgroup of dislocated workers--those displaced as a result of trade or import competition--are also eligible for cash assistance as well as training and related services under the TAA program.

The Trade Expansion Act of 1962 created TAA to compensate both workers and firms who were disadvantaged by a reduction in barriers to foreign trade. The program was little used in its early years but was significantly expanded by the Trade Act of 1974. From its inception, the legislation authorizing TAA has encouraged training and related employment services, including relocation assistance. However, the vast bulk of spending for TAA has been for cash benefits, called Trade Readjustment Allowances (TRA), which accounted for 97 percent of the $4.5 billion spent on the program from its beginning through 1987. 4/

4/ U.S. Office of Technology Assessment. Trade Adjustment Assistance: New Ideas for an Old Program--Special Report. OTA-ITE-346, Washington, D.C., June 1987. p. 20.

Initially, TRA benefits were paid as a supplement to regular UC, so that the two together could replace up to 65 percent of an employee's former wage. Once UC ran out, TRA alone could replace up to 65 percent of an employee's former wage. TRA benefits also lasted longer than regular UC benefits--52 weeks, or longer for workers over age 60--due to the notion that trade-affected workers would be jobless longer than other unemployed individuals. Workers in approved training activities could collect up to another 26 weeks of TRA benefits. The 1974 legislation increased the replacement rate of TRA and UC combined (or TRA alone after UC was exhausted) to 70 percent of previous wages.

Congress has revised the law several times in the 1980s, seeking to strengthen the program's focus on training and to link the receipt of TRAs with participation in training or related services. The Omnibus Budget Reconciliation Act (OBRA) of 1981 (P.L. 97-35) attempted to eliminate disincentives to participate in job search or training by making TRA benefits considerably less generous. Benefits could be paid only after an employee exhausted regular UC eligibility and were reduced to the same level as the UC payment. The total length of time an individual could receive UC and TRA remained at 52 weeks, with an extra 26 weeks for those in approved training, but the additional eligibility for older workers was eliminated.

The 1981 legislation also authorized separate appropriations for training and employment services to TAA-eligible workers. Before this legislation, no specific funds were authorized for TAA training, and the DoL had set aside a very limited amount of discretionary funds under CETA for this activity. Further, workers unemployed for more than 8 weeks and living in high unemployment areas could be required to choose between available training programs or searching for work outside the area. The size of job search and relocation allowances also was increased by the 1981 legislation.

Congress further strengthened the training component of TAA in 1985, with passage of the Consolidated Omnibus Budget Reconciliation Act (COBRA) (P.L. 99-272). That legislation established that the Secretary of Labor must approve training for eligible workers if five conditions are met: no suitable job is available; the worker would benefit from the training; a reasonable expectation of employment after training exists; training is available either privately or from government sources; and the worker is expected to complete the training. Previously, the Secretary could authorize training if these five conditions were met. Omnibus trade legislation enacted during the 100th Congress (P.L. 100-418) added a sixth criterion: training must be suitable for the worker and available at reasonable cost.

Once training is approved for a worker, that individual is entitled to have the costs of training paid, up to an annual cap on training costs of $80 million (the legislation provides that this could increase to $120 million if an import fee took effect and secondary workers became eligible for TAA). Prior to enactment of P.L. 100-418, this training cost entitlement was not constrained by a specific cap, but was subject to the availability of appropriations.

The 1985 amendments required States to advise applicants for TRA benefits to also apply for training and to inform them of appropriate training opportunities. Workers were obligated, under the 1985 legislation, to participate in a mandatory job search program. Under the Omnibus Trade Act passed by the 100th Congress, workers receiving TRA benefits now must participate in actual training, in addition to job search, unless training is not feasible or appropriate.

In FY 1988, $138 million was originally appropriated for TRA benefits, which the DoL estimates will provide 836,000 weeks of compensation to 36,000 individuals at an average weekly benefit level $165. Another $49 million was provided in a supplemental appropriations measure, P.L. 100-393. In addition, $47.9 million is available for training, job search and relocation allowances. DoL expects 11,000 workers to enroll in training programs, about 2,200 to receive job search assistance, and about 2,000 to receive relocation allowances.

D. Education

Programs discussed thus far provide training and other services specifically related to employment. The majority of working people, however, do not prepare themselves for employment by participating in a specific job training program. Most job training is actually provided in school or on the job by employers. While people who pursue vocational education or specialized higher education frequently are preparing themselves for specific occupations, this process is usually characterized as "education," not as "training."

A DoL survey of workers employed in January 1983 found that 55 percent of workers felt they needed specific training to qualify for their current jobs. About 29 percent of workers said they had obtained their training in school, and 28 percent received informal on-job-training. (These numbers cannot be added; some workers reported receiving training from more than one source.) Only about 4 percent received training through either private or public post-high school vocational education. About 17 percent of workers received necessary training in 4-year colleges, and about 5 percent said they were trained at community colleges or technical institutes. 5/

5/ Carey, Max and Alan Eck. How Workers Get Their Training. Occupational Outlook Quarterly, winter 1984. p. 5.

While a full discussion of education programs is beyond the scope of this report, it must be noted that enormous public expenditures are devoted to education activities. The Department of Education (ED) estimates that, for the 1987-88 school year, a total of $309 billion in public and private funds will be spent for education programs at all levels, with the Federal Government contributing about $27 billion and States furnishing the largest contribution of $122 billion. 6/ The ED estimates spending of $124 billion, of which $16 billion is Federal, specifically for postsecondary education. Programs include vocational education, remedial education for adults, and a variety of grants, loans and loan guarantees to help students with financial need pursue their education beyond high school. In addition to direct spending for education activities, the tax code also supports education through deductions available for employees pursuing job-related education and by excluding from income certain tuition assistance provided to workers by their employers.

E. Training Under Unemployment Compensation Law

The FUTA imposes a Federal payroll tax on employers, which is used to finance the administration of UC and most of ES. The current gross FUTA tax rate is 6.2 percent; however, employers are eligible for a credit against the tax, lowering the net tax rate to 0.8 percent if the State meets certain Federal requirements and has no delinquent Federal loans. Among the FUTA provisions is a requirement that States cannot deny UC to an individual because of enrollment in State-approved training. Expressed another way, States must

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6/ U.S. Department of Education. The Fiscal Year 1989 Budget. Summary and Background Information, Feb. 1988.

continue to pay UC benefits to individuals in approved training, even if participation in training makes the person unavailable for work or job search.

This provision was added to FUTA in 1970 (P.L. 91-373) and became effective January 1, 1972. The Senate Finance Committee report on the legislation stated, "In our complex industrial society, training in occupational skills has become so important to the employability of the individual that the committee believes that it is necessary to act to remove the impediments to training which remain in our unemployment compensation system." The Finance Committee noted that only 28 States at that time had some type of provision enabling individuals to participate in training while receiving UC benefits. Of these 28 States, the Committee determined that only 14 had provisions that would have met the requirement of the new legislation. 7/

No comprehensive information is available on how States have applied this provision. All States have complied with the law, allowing UC payments to otherwise eligible individuals enrolled in State-approved training. However, the Federal law does not specify criteria that States must use in approving training. Approved training is usually vocational or basic education training, as opposed to ongoing education programs for regularly enrolled students. 8/ In fact, about 20 States have provisions that limit the ability of regularly enrolled students to collect benefits while in school.

7/ U.S. Congress. Senate. Committee on Finance. Employment Security Amendments of 1970. Report to accompany H.R. 14705. Senate Report. No. 91-751. Washington, U.S. Govt. Print. Off., Mar. 26, 1970. p. 21-22.

8/ U.S. Department of Labor. Employment and Training Administration. Unemployment Insurance Service. Comparison of State Unemployment Insurance Laws, Jan. 3, 1988.

As mentioned earlier, the JTPA specifically states that enrollment in a training program for dislocated workers under title III of the Act is automatically deemed State-approved training for purposes of the FUTA requirement. In December 1984, DoL issued a guidance to States, clarifying that UC benefits could not be denied to an individual solely because of participation in title III of JTPA.

IV. USE AND EFFECTIVENESS OF EXISTING SERVICES

A. U.S. Employment Service

Theoretically, ES services are available to all workers--employed or unemployed--but who actually uses them? How effective is ES in serving its clients?

During program year 1986 (July 1, 1986 to June 30, 1987), more than 19 million applicants came to ES. Of these, slightly more than one-third were UC recipients and, therefore, required to register with ES. (Other applicants may also have been required to register with ES as a result of participation in such programs as Food Stamps or Aid to Families with Dependent Children (AFDC).) About 44 percent of total applicants were women, almost 12 percent were economically disadvantaged, and more than 13 percent were veterans. More than 600,000 people received counseling through ES, 246,000 were referred to training, and almost 7 million were referred to jobs. About 3.7 million obtained jobs through ES, at an average cost of $205. Of those placed in jobs, about 632,000 were UC recipients. 9/ Available data do not indicate the extent to which long-term unemployed individuals use ES or find employment through ES.

9/ U.S. Department of Labor. Employment Service. Data for Program Year 1986. U.S. Employment Service, Washington, D.C., Dec. 1987.

Little analysis has been conducted on the impact of ES in recent years. Research conducted in late 1980 and early 1981 found substantial benefits for women who were referred to jobs by ES; however, no significant benefits were found for men. 10/ Specifically, when compared with a control group of women who had not been referred by ES, women who had been referred found jobs more quickly (almost 3 weeks sooner) and worked more hours for larger earnings during a 6-month period (88 more hours and $325 more in earnings). The higher 6-month earnings were due exclusively to the greater number of hours worked and not to a higher hourly wage, however.

The ES competes, to a certain extent, with other job placement systems, namely, JTPA and private employment agencies. No comprehensive research has been conducted on the relative benefits to individuals of these different systems. However, a study in Nevada concluded that participation in JTPA (all types of JTPA services, not strictly job placement assistance) yielded substantially greater benefits for both men and women than job placement assistance from ES. 11/ However, the cost per placement also varied substantially, with ES costing far less per person than JTPA.

As for coordination between JTPA and ES, which was one of the goals of the 1982 Wagner-Peyser amendments, research conducted during the first full year the amendments were in effect (July 1984 to June 1985) found only limited improvement and identified several continuing barriers to coordination: longstanding rivalry, perceived differences in the goals of ES and JTPA, the performance contracting practice prevalent under JTPA, limited authority of

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10/ Johnson, Terry, Katherine Dickinson, and Richard West. An Evaluation of the Impact of ES Referrals on Applicant Earnings. Journal of Human Resources, 1985.

11/ Employment and Training Reporter. Nevada Study Not Designed to Pit JTPA System Against ES, Say Officials. May 11, 1988. p. 838.

States over local JTPA agencies, and funding cuts in JTPA. 12/ However, later research examining programs through program year 1986 found a much stronger trend toward coordination between ES and JTPA in both planning and actual service delivery. 13/

The GAO reported in March 1986 that ES was not well coordinated with private employment agencies. 14/ Although allowed by law to refer jobseekers to private agencies as long as the applicant is not charged a fee, the ES does not regularly make such referrals. The reason, according to GAO, is a concern that ES offices and personnel would be displaced if referrals to private employment agencies increased. Nonetheless, GAO identified advantages that could result from greater cooperation with private agencies. Private employment agencies typically solicit job openings from employers more aggressively than does ES; thus, GAO found private agencies had many job listings not available in ES offices. Based on limited available data, GAO suggested that greater use of private employment agencies could lead to more, and possibly quicker, job placements for ES applicants at relatively low cost.

While some displacement of ES personnel and offices could occur if greater use of private employment agencies were made, various experts contacted by GAO discounted this concern and even pointed out some institutional advantages to ES from cooperating with private agencies. For example, officials noted that private agencies could not profitably place all ES jobseekers but could enable

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12/ Macro Systems, Inc. Assessment of the Implementation and Effects of the JTPA Title V Wagner-Peyser Amendments. Phase II Final Report, Silver Spring, Md., Dec. 1985. p. vii.

13/ Employment and Training Reporter, SESAs, JTPA Develop Approaches to Joint Planning, Says New ICESA Study, Mar. 18, 1987. p. 706.

14/ U.S. General Accounting Office. Employment Service: More Jobseekers Should be Referred to Private Employment Agencies. HRD-86-61, Mar. 1986.

ES to target its staff and money more specifically on hard-to-serve population groups. Heavier use of private employment agencies also could attract higher quality job listings for ES which, in turn, might attract more qualified applicants and thus boost the image of ES in the business community, according to various analysts contacted by GAO.

B. Job Training Partnership Act

Most resources under JTPA are targeted on economically disadvantaged adults and youth. During program year 1986 (July 1986 to June 1987), the vast majority (93 percent) of title II-A enrollees were in families with cash incomes below the Federal poverty threshold. More than half (54 percent) had been unemployed at least 26 weeks before applying for JTPA services. Very few (6 percent) of title II-A enrollees were UC claimants at the time they applied for JTPA, although 23 percent received AFDC and 42 percent received some kind of cash or noncash public assistance, including AFDC. 15/

Although UC recipients comprise a small portion of title II-A participants, they seem to fare better than the average program trainee, to the extent that available data measure success in the program. In program year 1986, UC recipients had a job placement rate of 76 percent, compared with 62 percent for all participants, and an average hourly starting wage at placement of $5.79, compared with $4.76 for all trainees. Long-term unemployed enrollees, on the other hand, showed lower than average results after JTPA participation, with a 55 percent placement rate and an average hourly starting wage of

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15/ U.S. Department of Labor. Office of Strategic Planning and Development. Summary of JTQS Data For JTPA Title II-A and III. Enrollments and Terminations During Program Year 1986 (July 1986--June 1987), Dec. 1987.

$4.65. Likewise, AFDC recipients had a job placement rate of 54 percent and an average hourly starting wage of $4.57.

Dislocated workers participating in JTPA's title III program are a very different population from the low-income trainees enrolled in title II-A. During program year 1986, 55 percent of dislocated workers enrolled in title III were UC claimants at the time of application for JTPA, and 22 percent had been unemployed for at least 26 weeks. Only 1 percent received AFDC, and 7 percent received any form of cash or noncash assistance, including AFDC, although 32 percent had money incomes that would classify them as poor. 16/ During program year 1986, 71 percent of dislocated workers entered jobs after leaving JTPA (74 percent of participants who were UC claimants and 68 percent of long-term unemployed dislocated workers), at an average hourly starting wage of $7.26 ($7.50 for UC claimants and $6.76 for long-term unemployed).

Longitudinal evaluations of JTPA participation are not yet available to determine the program's net impact on employment and earnings. Past studies of services for the economically disadvantaged, provided under CETA, found that women and those with very little work experience tended to benefit the most from training in terms of increased earnings. Several studies of CETA participants found substantial earnings gains for women but smaller, in some cases insignificant, gains for men. These studies also found the largest earnings gains among those with the lowest earnings history. Research suggested this increase in post-program earnings was due primarily to an increase in the number of hours worked rather than an increase in the hourly wage. Thus, people who already had a relatively stable attachment to the

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16/ U.S. Department of Labor. Office of Strategic Planning and Policy Development. Summary of JTQS Data for JTPA Title II-A and III. Enrollments and Terminations During Program Year 1986, Dec. 1987, table C-49.

workforce but who chronically earned low wages did not benefit as much from training. This latter group was predominantly male. 17/

Recent research on CETA trainees who were welfare recipients found no significant welfare savings for men who had enrolled in CETA but substantial welfare savings for women, although no success was shown in moving people completely off welfare through training. Training programs for female welfare recipients helped to reduce the size of welfare benefits but did not result in complete economic independence. 18/ Welfare benefits, unlike earnings, are tied to family size. Thus, the average AFDC mother with two children may be unable, in certain States, to earn enough in an entry-level job to leave AFDC entirely, although she may be able to reduce her AFDC benefits by virtue of her earnings.

These findings from longitudinal studies of CETA enrollees would seem at first glance to conflict with performance outcomes achieved under JTPA, which show higher placement rates and average starting wages for men, in both the title II-A program for the disadvantaged and the title III program for dislocated workers. However, in the absence of longitudinal post-program evaluations of JTPA participants, little is known of the program's long-term implications for earnings and employment levels. Further, little is known

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17/ U.S. Congressional Budget Office. National Commission for Employment Policy. CETA Training Programs: Do They Work for Adults? Washington, July 1982; U.S. General Accounting Office. CETA Programs for Disadvantaged Adults: What Do We Know About Their Enrollees, Services and Effectiveness? Washington, IPE-82-2, June 14, 1982; Westat, Inc. Continuous Longitudinal Manpower Survey Net Impact Report No. 1, Impact on 1977 Earnings of New FY 1976 CETA Enrollees in Selected Program Activities, prepared for U.S. Department of Labor, Mar. 1981; Westat, Inc. Net Impact Report No. 1 (Supplement no. 1): The Impact of CETA on 1978 Earnings: Participants in Selected Program Activities Who Entered CETA During FY 1976, July 1982.

18/ Bassi, Laurie J. Training the Disadvantaged: Can It Reduce Welfare Dependence? Evaluation Review, Sage Publications, Aug. 1987. p. 505.

about the extent to which JTPA participants may have found comparable employment in the absence of JTPA enrollment. For example, while 71 percent of dislocated workers participating in title III of JTPA entered employment after leaving the program, 67 percent of all workers identified by the BLS as displaced between January 1981 and January 1986 were re-employed as of January 1986. 19/

Observers frequently express the concern that JTPA--both the disadvantaged as well as the dislocated worker programs--is not serving individuals most in need of assistance. Specifically, the performance-driven nature of the program, coupled with strict limitations on support services and cash allowances, are seen as factors influencing the program toward serving workers most likely to succeed and easiest to place in jobs, a practice referred to as "creaming." There is no comprehensive research on the issue, but anecdotal evidence suggests that the practice is fairly widespread, frequently manifested through entrance requirements for training programs that screen out individuals lacking certain skill or education levels. 20/ The National Commission for Employment Policy (NCEP) recently reported that welfare recipients and minorities are being served under JTPA in proportion to their presence in the eligible population, but that adult high school dropouts are not being served proportionately. 21/ However, NCEP's findings may overstate the extent to which disadvantaged groups are served. Researchers looked only at individuals

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19/ U.S. Department of Labor. Bureau of Labor Statistics. Reemployment Increases Among Displaced Workers. Press Release, Oct. 14, 1986.

20/ Levitan, Sar and Frank Gallo. A Second Chance: Training for Jobs. W.E. Upjohn Institute for Employment Research, Kalamazoo, Mich., 1988. p. 58.

21/ Sandell, Steven and Kalman Rupp. Who Is Served in JTPA Programs: Patterns of Participation and Intergroup Equity. National Commission for Employment Policy, Washington, D.C., Feb. 1988.

officially classified as "unemployed" (i.e., actively seeking work), while those most in need of JTPA services may have dropped out of the labor force altogether and therefore would not be considered in the NCEP study.

If, in fact, JTPA is serving the most employable of its target population groups, the net impact of the program may be smaller than its potential, given past research indicating that the greatest net benefits of training are realized by those with the least stable attachment to the workforce. However, the extent to which creaming is occurring, and the factors that may be causing it, are still unanswered questions. Some observers argue that sufficient flexibility exists within the program to allow service to those most in need. 22/

C. Trade Adjustment Assistance

The TAA was enacted to provide compensation to workers for permanent unemployment caused by reduction in trade barriers. However, during the years of the program's greatest growth (1975-1981), between 50 and 70 percent of workers certified as eligible for cash benefits under TAA were back at work by the time they received their first check, having waited an average of 14 to 16 months to receive benefits. Studies showed that about two-thirds of these workers actually went back to their old jobs, suggesting that the program was not serving permanently displaced workers, nor was it providing income maintenance during actual periods of unemployment. 23/ Through 1981, few TAA

22/ National Commission for Employment Policy. The Job Training Partnership Act. Washington, D.C., Sept. 1987. p. 62.

23/ Office of Technology Assessment. Trade Adjustment Assistance: New Ideas for an Old Program. Special Report, OTA-ITE-346, Washington, June 1987. p. 23.

eligible workers were aware that training and other adjustment services were available in addition to cash assistance. Amendments in 1981 and subsequent years increased the program's emphasis on training, and the number of workers enrolled in training and adjustment services rose accordingly.

Training under TAA remains small in comparison to the dislocated worker program authorized under JTPA, although TAA is considerably more generous to those workers certified as eligible because it provides extended income maintenance as well as generally longer training benefits. In addition to support for training, TAA authorizes job search and relocation allowances, neither of which has been used extensively. Use of relocation allowances peaked in 1983 and 1984. 24/

An evaluation of TAA by the Office of Technology Assessment (OTA) identified various concerns expressed by State administrators of TAA and JTPA services for dislocated workers. For example, it was reported that JTPA participants receive more counseling and assistance in identifying appropriate training than do TAA recipients, who typically select their own training programs from a list of approved courses. On the other hand, TAA's more generous benefits allow workers to receive cash benefits while participating in longer training programs, including remedial education if necessary in conjunction with vocational skill training. The major concern expressed about TAA was its low funding level; States reported running out of money for training well before the end of the fiscal year. Other major concerns identified by OTA were: the program's inherent inability to respond quickly to worker dislocation due to lengthy eligibility and certification procedures; the

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24/ U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means. 1988 ed., Mar. 24, 1988. p. 321.

difficulty and resulting inequities in pinpointing precisely what groups of workers are displaced due to import competition; and many workers' continuing unawareness of the program. 25/ Omnibus trade legislation enacted late in the 100th Congress (P.L. 100-418) addresses some of these concerns and is discussed later in this chapter.

25/ U.S. Office of Technology Assessment. Trade Adjustment Assistance: New Ideas for an Old Program. Special Report. p. 43-47.

V. CURRENT POLICY ISSUES

A. Alternative Uses of UC Funds

Attention has focused recently on the concept of using UC funds to promote training and reemployment. Some ideas are currently being tested, and other demonstrations are planned or proposed.

1. Reemployment Bonuses

The DoL is conducting a demonstration in four States to determine whether the UC system can identify workers permanently displaced from their jobs early in their period of unemployment, and whether certain types of special services, including cash reemployment bonuses, can lead to shorter spells of unemployment for these workers. The demonstration is at various stages in New Jersey, Illinois, California and Washington.

The New Jersey demonstration attempts to reach only permanently displaced workers by excluding certain groups from participation. 26/ For example, workers under age 25 are excluded, and participants must have had at least 3 years tenure at their last jobs and cannot have worked full-time for any other

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26/ Much of the discussion of the New Jersey demonstration is based on: Corson, Walter, and Stuart Kerachsky. The New Jersey UI Reemployment Demonstration Project. Interim Report. Mathematica Policy Research, Princeton, N.J., Apr. 1987.

employer during that 3-year period. Further, workers who expect to be recalled to their former jobs by a certain date are excluded from the demonstration, as are individuals typically hired through union hiring halls. Once selected for the demonstration, participants are divided into three treatment groups, each of which receives a different package of services.

All participants are initially assessed, counseled and enrolled in a job search workshop, usually beginning in their fifth week of unemployment. However, one group of participants receives only job search assistance, is given access to a job search "resource center," and must stay in touch with program staff to maintain their UC benefit eligibility. The second group is encouraged to pursue classroom or on-job-training, typically through JTPA, and to participate in job search. Relocation assistance also is available to this second group. Participants in the third group take part in the same job search activities as the first group but also are eligible for reemployment bonuses, equal to half their remaining UC entitlement, if they start work during the week in which they are assessed or in the next 2 weeks. The potential bonus is reduced by 10 percent during each week of unemployment until it is phased out completely. Bonus payments are made in two installments: 60 percent after 4 weeks on the job, and the balance after 12 weeks.

A preliminary evaluation of the New Jersey demonstration's first 6 months found that the program did result in shorter spells of UC receipt (0.64 fewer weeks per person) and a reduction in benefits of slightly more than $100 per person. Individuals receiving the reemployment bonuses experienced the greatest impacts, cutting their periods of UC receipt by a full week and reducing benefits by almost $172. The smallest impacts were felt by those in the second group, who received job search assistance plus training. That group experienced a reduction in UC receipt of 0.49 weeks and reduced benefits of

$69. These results were based on the program's first 6 months; subsequent data collected on the entire first year showed an overall reduction in duration of UC receipt of almost 10 percent per person and reduced benefits of more than $100 per person. [27]

The demonstration in Illinois offered participants a $500 reemployment bonus if they found a job of 30 hours or more per week within 11 weeks of applying for UC, and held the job at least 4 months. An evaluation of the demonstration showed reduced unemployment benefits of $158 per person and shorter unemployment of more than a week. [28] Researchers questioned whether the bonus induced workers to accept lower wage employment that they might have otherwise rejected, and concluded that workers reduced the duration of their unemployment through more intensive job search efforts, and not by simply accepting the first job they were offered.

2. Self-Employment Demonstrations

The DoL also will be testing the concept of using UC funds as grants to unemployed individuals who wish to become self-employed, an idea already implemented in Europe. DoL originally chose the State of Washington to conduct a 1-year self-employment demonstration, slated to begin in November 1988. Congress subsequently enacted legislation, P.L. 100-203, requiring the Secretary of Labor to conduct self-employment demonstrations in three States, each lasting 3 years. DoL has chosen Massachusetts and Oregon to join the demonstration.

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[27] U.S. Department of Labor. Pioneering New Jersey Project Speeds Displaced Workers Into Jobs. Press release, Apr. 25, 1988.

[28] Woodbury, Stephen, and Robert Spiegelman. Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois. [In] the American Economic Review, v. 77, no. 4, Sept. 1987. p. 513-530.

In the Washington demonstration, about 400 individuals will be eligible to receive up to $5,000 each, which is about equal to the UC benefits they would otherwise receive, plus business and management support services. The Massachusetts and Oregon demonstrations will provide similar benefits and could serve up to 3 percent of UC recipients in each State. States will have to establish standards to ensure that individuals receiving the self-employment allowances have sufficient experience or training and the ability to become self-employed. Evaluations of the self-employment demonstrations are due to Congress at the end of 1989 and 1991.

3. Wage Subsidies

A further alternative use of UC funds would convert benefits into wage subsidies for employers to encourage them to hire UC recipients. The Reagan Administration, in its FY 1984 budget submission, proposed allowing use of Federal supplemental compensation (FSC) benefits, due to specific workers, as a tax credit to employers willing to hire those workers. Currently, a targeted jobs tax credit (TJTC) is available to employers who hire members of certain target population groups, primarily disadvantaged youth. Studies of TJTC have found that relatively few employers have used the credit and relatively few members of the target population group have had the credit claimed for them. 29/

29/ Christenson, Sandra. The Targeted Jobs Tax Credit. Congressional Budget Office, memo. Washington, May 1984.

One wage subsidy proposal, referred to as the Productive Employment Program (PEP), is currently under consideration as a pilot project in California. Workers with valid UC claims, registered for job search with ES, would be eligible to participate in PEP; workers with definite recall dates within 4 weeks would be excluded. Workers would receive a voucher describing the wage subsidy for presentation to prospective employers. The weekly subsidy to employers would equal one-third of the worker's regular weekly UC benefit level; employers could receive this subsidy for twice the number of weeks of UC eligibility remaining for that particular worker. Actual UC payments to individuals would stop as soon as the person begins work.

A simulation of PEP by two researchers at the California Institute of Technology used data on unemployed individuals from the Survey of Income and Program Participation (SIPP), and showed average duration of unemployment could be reduced from 3.2 months to 2.8 months through implementation of PEP, based on the assumptions about worker and employer behavior contained in the simulation. The researchers concluded that a 7 percent unemployment rate could be reduced to 6 percent through implementation of a wage subsidy equal to about 20 percent. 30/

The Illinois reemployment bonus demonstration, described earlier in this section, also tested the concept of wage subsidies by paying a $500 subsidy to employers hiring workers within 11 weeks after they applied for UC. However, the only group benefiting from this component of the Illinois demonstration was white women, who received $164 less in UC benefits and cut the duration of

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30/ Rivers, Douglas and Jeffrey Dubin. Testimony before the House Ways and Means Committee. Subcommittee on Public Assistance and Unemployment Compensation. Dec. 14, 1987. Dubin and Rivers. Stochastic Simulation of Labor Demand Under Wage Subsidization: An Analysis of the Productive Employment Program. California Institute of Technology, Pasadena, Calif., May 1985.

their unemployment by a week. No significant impacts were found for other groups. 31/

4. Training Funds

The Reagan Administration, for FY 1984, proposed allowing States to use up to 2 percent of State unemployment tax receipts for training and relocation expenses of unemployed workers. Opposition to the proposal focused on the precarious status of many State unemployment accounts and the perception that few States would be financially able to divert any funds from payment of benefits. 32/ This argument was repeated in 1987 by J. Eldred Hill, president of UBA, Inc., a legislative consulting firm on UC issues, who also objected to diversion of UC funds for any type of special services to dislocated workers, since this population represents only a small segment of the unemployed. 33/

Beginning in 1983, California did divert funds from benefits into training by reducing the State unemployment tax on employers by $55 million and then imposing a separate tax, equal to the same amount, specifically for employment and training. The funds are administered by an Employment Training Panel which contracts with businesses and schools to provide actual training. Trainees must be UC recipients or recent exhaustees, unemployed, and acceptable to potential employers participating in the program. A 1986 report stated that 70 percent of those enrolled in the program successfully completed training, 94

31/ Woodbury and Spiegelman. Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois. American Economic Review, Sept. 1987. p. 513-530.

32/ Employment and Training Reporter. DoL Offers Added FSC, Vouchers, Subminimum, Dislocated Worker Aid. Feb. 16, 1983. p. 677.

33/ Employment and Training Reporter. Alternative Use of UI Funds Opposed. Bureau of National Affairs, Washington, D.C., Mar. 11, 1987. p. 690.

percent of those completing training were hired in jobs for which they were trained, and 86 percent of those hired were still on the job after 90 days. The average starting wage was $7.88 an hour. 34/ In late 1984, Delaware enacted State legislation imposing a special 0.1 percent tax on employers, with revenues earmarked for training. 35/ In both California and Delaware, these special training funds are components of an overall State economic development strategy to retain and create employment.

5. Policy Concerns

Proposals to use UC funds for alternative purposes, such as those discussed above, must be analyzed in the context of the system's overall financial soundness and the solvency of each State account. However, such issues as targeting and equity also arise. Specifically, who would be likely to participate in and benefit from these types of programs?

Reemployment bonuses, self-employment allowances, and wage subsidies all assume that the individual worker is at least minimally employable and has some marketable skills. These proposals provide financial rewards, either to the worker or to the employer, if the individual goes back to work sooner rather than later. Given the high failure rate of entrepreneurs and small businesses, proposals to provide self-employment allowances assume that recipients would have more than minimal skills and experience. In fact, self-employment allowances could be most beneficial for skilled workers living in areas where

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34/ Employment and Training Reporter. California's ETP Provides Training, Jobs for 40,000 Unemployed Since 1983. Bureau of National Affairs, Washington, D.C., Nov. 5, 1986. p. 240.

35/ Employment and Training Reporter. DuPont Signs Blue Collar Jobs Bill, Creates Funding for Delaware Training. Bureau of National Affairs, Washington, D.C., Sept. 12, 1984. p. 9.

other employment opportunities do not exist. Nonetheless, since all employers pay unemployment payroll taxes, and the system is intended to form an insurance pool for all covered workers, the question arises: Is it fair to siphon off a certain amount of funds for the benefit of specific workers who may not be the most disadvantaged of the unemployed? At the same time, quick reemployment of those most able to obtain jobs is healthy for the economy overall, results in greater tax receipts, promotes solvency in State UC accounts, and can help provide resources to design more targeted assistance for people with long-term problems.

Proposals to divert UC funds for training activities also raise questions of State solvency. Further issues related to use of UC for training include: Who would participate in training? Who would provide and administer training? Could funds also be used for relocation and job search costs? Who would establish performance standards, if any, and what would they measure and reward? Finally, any use of UC funds for training activities should be considered in light of research on the effectiveness of training programs in promoting reemployment. For certain workers, a short-term training program might quickly lead to new employment. For others, participation in training might actually delay reemployment, thereby draining the system, but might lead to a higher-wage job. Thus, decisions about the overall purpose of training would be needed before the questions posed above could be answered.

B. Revision of Existing Programs

Enactment of JTPA in 1982 represented a complete overhaul of the nation's employment and training system, including the first major legislative changes to ES in almost 50 years. Since then, Congress has resisted making significant changes in employment and training programs, preferring to give the new system time to become firmly established, although legislation was enacted late in the 100th Congress making substantial changes in JTPA's dislocated worker program.

A perception is emerging that some revisions or fine-tuning in current employment and training programs may be desirable, with most proposed changes classified under several broad policy issues. For the most part, these issues deal with targeting, quality of services, and program coordination.

1. Targeting of Resources

Targeting has been a constant concern for ES, which theoretically is open to all workers but which, in reality, must concentrate its limited resources on priority groups. ES tends to have low-wage job listings and low-skilled clients, although it is unclear which of these two factors is a cause and which a result. A case could be made that ES is best equipped to serve groups with labor market problems, such as low-income workers, veterans, and individuals with disabilities, and that other workers could readily be served through private channels, including private employment agencies, as suggested by GAO. Given the limited funding available to ES, focusing resources on selected population groups could enhance the quality of services provided to them.

On the other hand, ES is financed primarily by receipts from the FUTA tax imposed on all employers; thus, all employers should be entitled to use ES as a source of qualified labor. Targeting resources primarily on the disadvantaged would further discourage employers from listing higher quality jobs with ES, and ES might become simply a clearinghouse for unskilled workers and low-paying, dead-end jobs. In addition, the more targeted ES becomes, the greater the potential for duplication between ES and JTPA programs.

As mentioned earlier, there is concern that JTPA programs, both for the disadvantaged and dislocated, may not be serving the neediest of either population. Amendments have been proposed relating to the title II-A program for the disadvantaged that would provide financial incentives to States to increase services to disadvantaged individuals considered most likely to be long-term unemployed--teenage welfare mothers and long-term welfare recipients. 36/ Another targeting approach could be to alter the program's performance standards, which currently reward programs with high placement rates and low costs and discourage service to hard-to-place individuals with multiple and costly needs. The NCEP has recommended exempting a certain amount of funds, say 2 percent, from compliance with performance standards and allowing local areas to use these funds for any legal purpose under the Act, including services for groups with special needs. 37/ The law also could be changed to allow and encourage greater provision of support services and needs-based training allowances, which some observers consider necessary to permit widespread participation of extremely disadvantaged individuals.

Any changes in JTPA resulting in greater emphasis on serving the extremely disadvantaged, who are less likely to be placed in employment, could affect the program's popularity and credibility with the private sector. The involvement of business and industry with local JTPA programs is considered a key ingredient contributing to the program's successful image. The argument could be made that JTPA was not designed to serve the extremely hard-core disadvantaged but is doing a creditable job of providing short-term service to low-income

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36/ Jobs for Employable Dependent Individuals Act, S. 514. Introduced by Senator Edward Kennedy, passed by the Senate, Apr. 1987. Companion bill, H.R. 2246, pending in the House.

37/ National Commission for Employment Policy. The Job Training Partnership Act. Washington, D.C., Sept. 1987. p. 118.

individuals and placing significant numbers of people into jobs. People whose needs exceed the limits of JTPA programs may require a more comprehensive array of services, including remedial and basic education, social services such as child care, intensive counseling, and long-term income support while participating in such programs. In fact, the centerpiece of the welfare reform debate in the 100th Congress has been the role of employment and training services for welfare recipients, with emphasis on a comprehensive "case management" approach for each welfare client that would include child care and other support services.

On the other hand, the argument also could be made that JTPA is the primary public vehicle for delivering employment and training and, given fiscal constraints on public spending, should be targeted on those most in need of public services and least able to succeed in the labor market on their own. Since research on previous programs for the disadvantaged has shown the greatest net benefits are felt by those with the least prior labor force attachment, a tightly targeted program could have the greatest long-term impact. Further, if JTPA were allowed to serve primarily the most employable of the low-income population, and the welfare system were relied on to identify and serve those with more severe employment problems, certain groups of disadvantaged men could go unserved completely since the vast majority of employable adults on welfare are women.

The targeting issue also is relevant to programs serving dislocated workers. Certain dislocated workers are more likely than others to be long-term unemployed; the majority of dislocated workers go back to some sort of job, albeit often at lower wages, without the aid of a job training or job search program. Experience under title III of JTPA has shown that dislocated workers typically are seeking immediate reemployment and are reluctant or financially unable to pursue longer-term training that might eventually lead to higher-wage jobs. As a result, and also because of the program's performance standards, title III has tended to provide primarily short-term job search assistance rather than extensive classroom or on-job-training.

Title III serves a considerably smaller percentage of older dislocated workers--those most likely to face long-term reemployment problems--than found in the eligible population and serves a greater percentage of high school graduates than found among eligible dislocated workers. Specifically, 27 percent of title III enrollees were 45 or older during program year 1986, compared with 37 percent of the eligible population, and 82 percent of enrollees were high school graduates, compared with 78 percent of eligible workers. 38/

It is unclear whether the makeup of enrollees is a cause, or a result, of the types of services provided under the program. However, proposals designed to target title III more specifically on dislocated workers likely to face long-term problems usually have been attempts to change the mix of services provided and to encourage States to offer more long-term education and retraining. Legislation was enacted late in the 100th Congress (P.L. 100-418) substantially revising title III and requiring substate grantees to spend at least half their funds on retraining services. The new law also requires States to provide rapid response assistance immediately after learning of a substantial worker displacement, and to provide basic readjustment services such as counseling and job search assistance. Presumably, workers who need only minimal assistance to become reemployed could be served through rapid response or basic readjustment services, while workers with more significant

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38/ U.S. Department of Labor. Summary of JTQS Data for JTPA Title II-A and III. Enrollments and Terminations During Program Year 1986. Dec. 1967. p. 17.

barriers to reemployment would be channeled into longer-term retraining programs.

Discussions of targeting in TAA typically are discussions of equity. The program has a specific purpose--to aid workers directly affected by import competition. However, it is sometimes difficult to determine which industries and groups of workers are directly harmed by foreign trade, since certain secondary industries, which may not have direct foreign competition, are integrally related to other products or services which do have import competition. The 100th Congress passed omnibus trade legislation (P.L. 100-418) which expands TAA eligibility to certain oil and gas workers and, contingent upon imposition of an import fee, to workers displaced from firms supplying essential goods or services to employers directly affected by import competition.

The larger equity question, however, is whether it is reasonable and fair for certain groups of displaced workers to be treated more generously than others, by virtue of the cause of their displacement and not the extent of their hardship. While TAA serves a much smaller group than title III of JTPA, its benefits are more comprehensive and include long-term income support. Part of the rationale behind TAA has been that trade-affected workers are likely to be unemployed for very long periods and may need extensive adjustment assistance. However, experience has not necessarily proven that trade-affected workers are in fact worse off than workers displaced for other reasons. The Reagan Administration proposed to terminate TAA for workers and to serve import-affected workers along with other groups of dislocated workers under an expanded version of JTPA's title III. The 100th Congress rejected this proposal, however, and chose to continue TAA as well as to expand title III.

2. Quality of Services

Discussions of quality in ES typically concern funding. Little is actually known about the impact of services provided by ES workers on clients' long-term employment and earnings. However, there is a widespread perception that constraints on the ES budget have resulted in inadequate staff levels, thereby affecting the quality of services provided. The 1982 amendments to the Wagner-Peyser Act attempted to mitigate this problem by requiring that non-labor exchange functions may be performed by ES only if paid for by another agency. Nonetheless, the concern persists that funding levels are not adequate to meet the demands placed on the ES system. As part of a larger reform proposal, the Administration has broached the idea of "devolving" the financing of ES to the States; that is, the Federal payroll tax on employers would be reduced and States would be allowed to develop their own means of financing ES, plus the administrative component of UC. Other proposals to improve the quality of ES services also include a requirement that the Secretary of Labor establish a fully automated interstate job bank. Thus far, the feasibility, cost and effectiveness of such a job bank have not been shown. However, $50 million has been authorized for FY 1989, and such sums as necessary in subsequent years, for grants to States for job bank development, under the omnibus trade legislation enacted by the 100th Congress (P.L. 100-418).

The issue of quality in JTPA services is closely related to the earlier discussion of targeting. In both the disadvantaged and dislocated components of JTPA, services tend to be relatively short-term with quick job placement as the immediate goal. Particularly in the title III program for the dislocated, short-term job search assistance has been heavily emphasized. The same factors that may lead to "creaming" among participants influence the types of services provided: namely, performance standards that reward low-cost placements, performance-based contracts that do not reimburse providers for the full cost of training until after completion, and strict limitations on support services and training allowances. Any changes in JTPA to encourage tighter targeting on very disadvantaged groups also could affect the service mix and encourage longer training, including greater provision of necessary remedial education.

However, such changes might be considered in the light of research findings on CETA programs. CETA training was generally longer in duration than JTPA programs, not driven by placement-based performance standards, and not constrained in the payment of training allowances. Yet, the primary benefit of CETA participation for disadvantaged individuals was in obtaining employment, not necessarily improving the quality of employment for those with some previous labor force attachment. In the absence of longitudinal evaluations of JTPA participation, it is unknown whether JTPA's short-term services may be having effects similar to those of the more intensive services provided under CETA. At the same time, the current mix of services may be contributing to the perceived problem of creaming, in that individuals with serious skill and educational deficiencies--those who could potentially benefit the most from some type of program--may not approach JTPA at all because it does not appear to offer services appropriate to their needs.

Little was known about the training and related employment needs of dislocated workers in 1982 when Congress authorized the first major training program for that population group under title III of JTPA. Subsequent experience led the 100th Congress to pass a major overhaul of the title, contained in omnibus trade legislation (P.L. 100-418). OTA, in an evaluation of dislocated worker projects, identified several "common ingredients of success" in these projects, all of which are addressed to some extent by the new title III amendments. Specifically, OTA says that projects located on-site and directed by labor-management teams are highly effective; assistance to workers should begin as early as possible; employers should work together with labor in providing services; an ongoing employment and training system is needed for displaced workers not reached through an on-site project; and projects should offer a wide range of services in recognition of differing individual needs and regional and economic circumstances. 39/

Under title III as originally written, States received formula allocations for services to dislocated workers and were relatively free to design their own programs. In addition, 25 percent of appropriations were reserved for the Secretary of Labor to respond to industry-wide, multi-State, or unforseen dislocations. In the conference report on the 100th Congress amendments to title III, lawmakers noted that the quality of title III programs has been uneven. The new legislation requires all States to establish a rapid response capability that would allow immediate, basic readjustment services to workers as soon as a dislocation is announced, including formation of labor-management committees at affected worksites. DoL, together with the National Governors' Association, is currently conducting a demonstration of the effectiveness of labor-management committees, which is a concept borrowed from Canada. Also under the new law, allotments to States can be used for a comprehensive array of basic, short-term, readjustment services, intended to help more employable dislocated workers move quickly into new jobs; and longer-term retraining

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39/ U.S. Office of Technology Assessment. Technology and Structural Unemployment: Reemploying Displaced Adults. Washington, D.C., Feb. 1986. p. 225.

services, including remedial education and literacy training, for dislocated workers likely to face long-term reemployment problems. At least half the funds received at the local level will have to be used for retraining. Eligible dislocated workers, who do not qualify for UC or who have exhausted their benefits, will be eligible for needs-based payments equal to the higher of the applicable UC payment level or the Office of Management and Budget (OMB) poverty line, if they had enrolled in training early in their period of unemployment. Further, the authorization level for the amended program is more than three times greater ($980 million) than the FY 1988 appropriation for title III ($287 million).

The omnibus trade legislation passed by the 100th Congress (P.L. 100-418) also contains amendments to TAA, intended to improve the quality of training financed under that program. The conference report on the amendments clarified that payment of approved training is an "entitlement," up to an annual ceiling of $80 million ($120 million if an import fee to finance the program goes into effect and workers in secondary industries become eligible). Training costs can be paid either directly or through a voucher to the worker, remedial education is specifically included as an allowable form of training, and private or public funds may be combined with TAA funds to pay for training that might otherwise exceed the TAA appropriation. Further, the Secretary of Labor is encouraged to approve training for workers as early as possible in their period of unemployment.

3. Program Coordination

Finally, the issue of coordination is a recurring theme in any discussion of changes in employment and training programs. Improved coordination was one of the goals of JTPA in 1982. That Act sought to improve coordination among all components of the employment and training system, including ES, work programs for welfare recipients, vocational education programs, and economic development activities. While some improvements have been reported, the goal of coordination remains elusive and continues to be written into new proposals and recommendations. For example, the goal of improved coordination between welfare agencies and the job training community has been a prominent feature in the welfare reform debate in the 100th Congress.

Coordination on behalf of dislocated workers is addressed in the new trade legislation passed by the 100th Congress through changes in the existing State Job Training Coordinating Council authorized under JTPA, and through changes in TAA mandating coordination of training provided under TAA with services established under title III of JTPA. States specifically are required, by the new title III amendments, to coordinate their dislocated worker programs with economic development activities, State education, training and social service programs, and the ES and UC systems.

Attempts at program coordination typically take the form of mandating such coordination at various levels of government through legislation, creation of planning councils and advisory bodies composed of varied representatives (e.g., PICs at the local level, State Job Training Coordinating Councils), and occasionally through authorizing funds specifically for the purpose of coordination. For example, 8 percent of funds allocated to States under title II-A of JTPA is set aside specifically for achieving coordination between the job training and education communities. Further, 10 percent of State ES grants can be used for discretionary activities, including programs geared for individuals with special needs provided jointly by ES and the local job training agency. The new title III amendments contained in the omnibus trade legislation allow States to use part of their allotments for coordination with the UC program.

C. Private Sector Issues

Most government responses to unemployment attempt to help workers after they have become unemployed. Some proposals are designed to be preventive, however, and are based on the assumption that changes in the American labor market will require both workers and employers to be flexible and to recognize the need for continual training and retraining throughout their careers.

1. Training Accounts

Incentives and mechanisms for individual workers to save funds for retraining, in case of their own future dislocation, have been proposed in various forms during the last several years. Pat Choate, senior policy analyst for TRW, Inc., originally proposed the "Individual Training Account" (ITA) 40/ in which workers and their employers would make tax-deductible contributions to an account in the worker's name. In case of dislocation, the worker could withdraw these funds tax-free to use for necessary retraining to become reemployed. Several variations on this basic concept have been introduced in Congress, including a related proposal that would allow tax-free withdrawals from existing Individual Retirement Accounts (IRA) for retraining in case of dislocation.

These measures assume that at least some workers will need formal retraining some time during their careers to avoid permanent or long-term

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40/ Choate, Pat. American Workers at the Rubicon: A National Human Capital Strategy. Economic Development Commentary, v. 6., summer 1982. p. 3-10.

dislocation and will need funds to finance this retraining. However, economists and labor market analysts disagree on whether this need actually exists or will exist in the future and whether it would affect sufficient numbers of workers to warrant new legislation. Assuming that certain groups of workers would need retraining at some future point in their careers, a further question is whether those most likely to need retraining would also be those most likely to have established ITAs or IRAs. Both options are a form of tax-deferred savings and therefore are most attractive to workers in higher tax brackets. Regardless of which option was chosen to finance retraining, additional issues would include the quality and availability of training services and the program's overall costs through foregone tax revenues.

2. Private Sector Training

Related to the issue of prevention is the substantial role played by private industry in providing training to existing employees. A recent survey of employers with 50 or more workers estimates that $32 billion was budgeted for formal worker training in 1987. [41] The survey estimated that almost 39 million individuals would spend 1.2 billion hours in formal, employer-sponsored training sessions. The most prevalent type of formal training in these organizations was new employee orientation, and the type of employee likely to receive the most training was sales personnel. The American Society for Training and Development recently concluded that employer-sponsored training is critical for American employers to maintain world competitiveness and recommended that at least another $15 billion in employer training expenditures is needed. 42/

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[41] Training Magazine. Training Magazine's Industry Report 1987, Oct. 1987.

A 1987 study by the Work in America Institute reported that retraining existing workers whose jobs have become obsolete may be cheaper in the long run for employers than firing these workers and hiring new personnel. 43/ Speakers at a recent National Alliance of Business (NAB) conference also stressed the need for private industry to invest heavily in worker training and retraining, particularly in light of looming projected labor shortages. 44/ Legislation has been introduced in the last several Congresses to allow tax credits to employers for increased levels of worker training, comparable to existing tax credits for research and development costs.

In terms of private sector interest in public sector training programs, private industry plays a key role under JTPA and has contributed to the current trend toward "customized" training and the development of "skills corporations" in several States. Customized training is often used as an economic development tool to recruit industry to States by guaranteeing workers trained specifically for a particular employer. State skills corporation programs, which originated in Massachusetts in 1981, provide industry-specific training through private-public partnerships that typically require a substantial amount of private matching funds. NAB noted in a recent brochure that, by the year 2000, small companies with fewer than 100 employees will be

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42/ Vocational Training News. Business Can Buy Competitiveness by Investing in Training, Report says. Alexandria, Va., May 5, 1988.

43/ Employment and Training Reporter. Retraining Found Cheaper Than Layoffs. Washington, D.C., Apr. 1, 1987. p. 756.

44/ Employment and Training Reporter. Cost of Retraining for Tomorrow's Jobs Seen as Businesses' Responsibility. Washington, D.C., Oct. 7, 1987. p. 84.

the major contributors to new job opportunities, but these small employers are the least able to provide direct training for workers. 45/ Thus, NAB argued, a closer partnership is needed between business and education, defined broadly to include job training programs, in order to obtain the quality work force that will be needed in the near future.

45/ National Alliance of Business. Business and Education: The Demand for Partnership. Special Advertising Section, reprinted from Business Week, May 2, 1988.

VI. CONCLUSIONS

Unemployed workers are not a homogeneous group. Similarly, workers likely to remain unemployed for long periods of time are not homogeneous. Therefore, it is difficult to generalize about their training and employment service needs.

As the composition of the structurally unemployed has changed to encompass such new groups as dislocated workers, so has the clientele for employment and training programs. Needs of the labor market have also changed, affecting the content of training programs. Meanwhile, the composition of the workforce itself is changing, becoming more diverse and including fewer new entrants.

Traditionally, employment and training services have been designed as "remedial" programs and thus have focused on disadvantaged populations. These programs have been particularly successful at bringing individuals with little previous attachment to the workforce--primarily women and youth--into the labor market. However, employment and training programs historically have been less successful with people who have a relatively stable work history but lack adequate skills to move up the economic ladder.

Much has been learned during the last 30 years about the art and science of training, but no single program model or approach has emerged as universally effective. Remedial and basic skills training, including orientation to the world of work, remain essential services for many structurally unemployed individuals, both dislocated workers as well as the economically disadvantaged. At the same time, greater emphasis may be needed on higher skill training, particularly as the needs of employers become more sophisticated and the work force itself matures.

As the composition of the unemployed becomes more diverse, and the type of training and related services required to meet their needs becomes more comprehensive, the job training "community" also grows larger. JTPA is the centerpiece of Federal employment and training policy, but the related programs discussed in this chapter, including the UC system itself, are playing an increasingly more significant role in serving different segments of the unemployed.

Interest in promoting the quick reemployment of UC recipients likely to become long-term unemployed, coupled with Federal budget constraints, has focused attention on proposals to link UC more directly with job training. However, proposals to divert UC funds into various employment and training services should be evaluated carefully from the viewpoint of overall employment training policy as well as in the context of financing and other issues directly affecting UC.

Finally, it could be argued that the business and education communities are two of the most essential components in training policy. Employers know their own workforce needs best and may be the most capable of providing, or at least designing, higher-skill training. Graduates of the public education system are expected to be literate and employable, yet educators often lack complete information about labor market needs. Changes in the work force may require more interdependence between employers and educators; thus, it is possible that they will play an increasingly larger role in future employment and training efforts.

VII. LEGISLATIVE PROPOSALS

After JTPA was enacted in 1982, Congress resisted making further amendments to employment and training programs, largely in response to criticisms from program administrators that JTPA's predecessor, CETA, had been amended too frequently. Nonetheless, a substantial volume of legislation related to job training has been considered by Congress in recent years, and some significant legislation has been enacted. Most of the policy issues related to pending legislation have been discussed earlier in this chapter. The following is a brief summary of employment and training legislation introduced in the 100th Congress.

Massive trade legislation was enacted late in the 100th Congress--the Omnibus Trade and Competitiveness Act of 1988, P.L. 100-418. This measure contains a major overhaul and expansion of the dislocated worker program authorized by title III of JTPA, and extends and amends TAA. Numerous bills were introduced in the 100th Congress related to these two programs, and many of the provisions in those bills were incorporated into the enacted legislation.

Two additional legislative areas, closely related to employment and training but not dealt with in this report, also were prominent during the 100th Congress. These are welfare reform and the role of job training and work programs for welfare recipients (H.R. 1720), and mandatory advance notice to workers in cases of plant closing (P.L. 100-379).

A variety of other employment and training proposals, including those described below, have been introduced in the 100th Congress.

The Worker Adjustment Improvement Act of 1987 (H.R. 1408, H.R. 1412, S. 524) would provide up to 10 weeks of Federal UC payments for dislocated workers participating in title III of JTPA who exhaust regular UC benefits. Before enactment of the omnibus trade legislation, title III of JTPA provided extremely limited income support to participating dislocated workers, although they could remain eligible for regular UC while in training. Under the new law, however, dislocated workers may be eligible to receive needs-related payments, equal to the higher of their UC benefit level or the poverty level, after exhausting regular UC benefits if they enroll in training early during their period of unemployment.

The Unemployment Training and Improvement Act of 1987 (S. 1969) would promote training for UC recipients by giving States credit, in their unemployment trust fund accounts, for amounts spent on UC benefits to people enrolled in approved training. The Secretary of Labor would establish model criteria for States to use in approving training and would conduct research to determine whether participation in training resulted in higher paying jobs, reduced UC costs, or affected other benefit programs such as food stamps, AFDC, medicaid or general assistance. The Extended Unemployment Insurance Reform Act of 1987 (H.R. 2676) contains identical language but would authorize the program as a demonstration in five States.

Self-employment demonstrations would be authorized by a variety of bills introduced in the 100th Congress (H.R. 2676, H.R. 530, S. 1624, S. 1969). Congress included authority for a self-employment demonstration in three States in OBRA of 1987 (P.L. 100-203). The Unemployment Insurance Reemployment Demonstration Projects Act (H.R. 3213) would authorize demonstrations in at least five States with a variety of goals: to determine methods of identifying dislocated UC recipients early in their unemployment; to develop an integrated service delivery system for screening and referring dislocated UC recipients; to test the effectiveness of various early intervention reemployment services; and to test new or innovative ways to promote rapid reemployment of dislocated UC recipients. Specifically, the legislation states that new or innovative methods could include relocation assistance, reemployment bonuses, self-employment allowances, and economic adjustment allowances equal to a percentage of a worker's remaining UC entitlement.

Legislation to create resources for workers to finance their own retraining has been introduced in the past several Congresses. The National Individual Training Account Act of 1987 (H.R. 137) would establish a system of Individual Training Accounts in the Unemployment Trust Fund. Workers and employers would contribute to ITA accounts in the worker's name, and workers could withdraw these funds for training expenses in case of dislocation. Similarly, the National Training Incentives Act of 1987 (H.R. 2725) would allow dislocated workers to make early withdrawals from existing Individual Retirement Accounts, without penalties, to pay for training expenses. This legislation also would authorize tax credits to employers providing more than a certain amount of employee training. The Labor Productivity Assistance Act (S. 617) would authorize low-interest loans for certain groups of unemployed people, including displaced homemakers and dislocated workers, for training and other employment-related expenses.

Finally, legislation has been introduced in the 100th Congress to create actual employment for jobless workers in the public sector (H.R. 40, H.R. 2197, S. 777). Similar legislation has been offered in the last several years; public service employment previously authorized under CETA was terminated in FY 1981.

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APPENDIX A: SUPPORT TABLES FOR CHARTS IN REPORT AND DATA ABOUT CHARACTERISTICS OF UNEMPLOYMENT COMPENSATION RECIPIENTS

TABLE A.1. Population, Labor Force, Employment and Unemployment (Civilian Noninstitutional Population Age 16+), 1947-1987 (thousands of persons)

Year	Civilian non-institutional population age 16	Civilian labor force age 16+	Employment age 16+	Unemployment age 16+
1947	101,827	59,350	57,038	2,312
1948	103,068	60,621	58,343	2,278
1949	103,994	61,286	57,651	3,635
1950	104,995	62,208	58,918	3,290
1951	104,621	62,017	59,961	2,056
1952	105,231	62,138	60,250	1,888
1953	107,056	63,015	61,179	1,836
1954	108,321	63,643	60,109	3,534
1955	109,683	65,023	62,170	2,853
1956	110,954	66,552	63,799	2,753
1957	112,265	66,929	64,071	2,858
1958	113,727	67,639	63,036	4,603
1959	115,329	68,369	64,630	3,739
1960	117,245	69,628	65,778	3,850
1961	118,771	70,459	65,746	4,713
1962	120,153	70,614	66,702	3,912
1963	122,416	71,833	67,762	4,071
1964	124,485	73,091	69,305	3,786
1965	126,513	74,455	71,088	3,367
1966	128,058	75,770	72,895	2,875
1967	129,874	77,347	74,372	2,975
1968	132,028	78,737	75,920	2,817
1969	134,335	80,734	77,902	2,832
1970	137,085	82,771	78,678	4,093
1971	140,216	84,382	79,367	5,015
1972	144,126	87,034	82,153	4,881
1973	147,096	89,429	85,064	4,365
1974	150,120	91,949	86,794	5,155
1975	153,153	93,775	85,846	7,929
1976	156,150	96,158	88,752	7,406
1977	159,033	99,009	92,017	6,992
1978	161,910	102,251	96,048	6,203
1979	164,863	104,962	98,824	6,138
1980	167,745	106,940	99,303	7,637
1981	170,130	108,670	100,397	8,273
1982	172,271	110,204	99,526	10,678
1983	174,215	111,550	100,834	10,716
1984	176,383	113,544	105,005	8,539
1985	178,206	115,461	107,150	8,311
1986	180,587	117,834	109,597	8,237
1987	182,753	119,865	112,440	7,425

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.2. Civilian Labor Force Participation Rates by Sex, 1948-1987

Year	Total	Men	Women
1948	58.8%	86.6%	32.7%
1949	58.9	86.4	33.1
1950	59.2	86.4	33.9
1951	59.3	86.3	34.6
1952	59.0	86.3	34.7
1953	58.9	86.0	34.4
1954	58.8	85.5	34.6
1955	59.3	85.4	35.7
1956	60.0	85.5	36.9
1957	59.6	84.8	36.9
1958	59.5	84.2	37.1
1959	59.3	83.7	37.1
1960	59.4	83.3	37.7
1961	59.3	82.9	38.1
1962	58.8	82.0	37.9
1963	58.7	81.4	38.3
1964	58.7	81.0	38.7
1965	58.9	80.7	39.3
1966	59.2	80.4	40.3
1967	59.6	80.4	41.1
1968	59.6	80.1	41.6
1969	60.1	79.8	42.7
1970	60.4	79.7	43.3
1971	60.2	79.1	43.4
1972	60.4	78.9	43.9
1973	60.8	78.8	44.7
1974	61.3	78.7	45.7
1975	61.2	77.9	46.3
1976	61.6	77.5	47.3
1977	62.3	77.7	48.4
1978	63.2	77.9	50.0
1979	63.7	77.8	50.9
1980	63.8	77.4	51.5
1981	63.9	77.0	52.1
1982	64.0	76.6	52.6
1983	64.0	76.4	52.9
1984	64.4	76.4	53.6
1985	64.8	76.3	54.5
1986	65.3	76.3	55.3
1987	65.6	76.2	56.0

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.3. Male and Female Civilian Labor Force Participation Rates by Age, Selected Years, 1960-1985

Men	Age							
Year	16-19	20-24	25-34	35-44	45-54	55-64	65+	Total
1960	56.2%	88.1%	97.5%	97.7%	95.7%	86.8%	33.1%	83.3%
1965	53.8	85.8	97.3	97.3	95.6	84.6	27.9	80.7
1970	56.1	83.3	96.4	96.9	94.3	83.0	26.8	79.7
1975	59.1	84.5	95.2	95.6	92.1	75.6	21.6	77.9
1980	60.5	85.9	95.2	95.5	91.2	72.1	19.0	77.4
1985	56.8	85.0	94.7	95.0	91.0	67.9	15.8	76.3

Women	Age							
Year	16-19	20-24	25-34	35-44	45-54	55-64	65+	Total
1960	39.3%	46.1%	36.0%	43.4%	49.8%	37.2%	10.8%	37.7%
1965	38.0	49.9	38.5	46.1	50.9	41.1	10.0	39.3
1970	44.0	57.7	45.0	51.1	54.4	43.0	9.7	43.3
1975	41.0	64.1	54.9	55.8	54.6	40.9	8.2	46.3
1980	52.9	68.9	65.5	65.5	59.9	41.3	8.1	51.5
1985	52.1	71.8	70.9	71.8	64.4	42.0	7.3	54.5

Source: Table prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

CRS-A.4

TABLE A.4. Composition of Labor Force by Sex and Age, 1948-1987

	Men (percentage of total labor force)			
	16-19	20-24	25-64	65+
1948	4.3%	7.7%	55.5%	3.9%
1949	4.0%	7.6%	55.3%	4.0%
1950	4.0%	7.4%	55.0%	3.9%
1951	3.8%	6.3%	55.2%	4.0%
1952	3.7%	5.4%	56.0%	3.9%
1953	3.7%	4.8%	56.7%	4.0%
1954	3.6%	4.8%	56.7%	4.0%
1955	3.6%	5.0%	55.9%	3.9%
1956	3.7%	5.2%	55.0%	3.9%
1957	3.6%	5.4%	54.8%	3.7%
1958	3.6%	5.6%	54.6%	3.5%
1959	3.8%	5.8%	54.2%	3.4%
1960	4.0%	5.9%	53.4%	3.3%
1961	4.0%	6.0%	53.1%	3.2%
1962	3.9%	6.1%	52.8%	3.2%
1963	4.0%	6.3%	52.3%	3.0%
1964	4.2%	6.5%	51.6%	2.9%
1965	4.6%	6.6%	50.8%	2.9%
1966	4.9%	6.4%	50.0%	2.8%
1967	4.7%	6.5%	49.4%	2.7%
1968	4.7%	6.4%	49.1%	2.7%
1969	4.8%	6.5%	48.2%	2.7%
1970	4.8%	6.9%	47.5%	2.6%
1971	4.9%	7.4%	47.0%	2.5%
1972	5.1%	7.8%	46.3%	2.3%
1973	5.2%	8.0%	45.7%	2.1%
1974	5.3%	8.0%	45.2%	2.1%
1975	5.1%	8.1%	44.8%	2.0%
1976	5.1%	8.2%	44.3%	1.9%
1977	5.1%	8.2%	43.8%	1.9%
1978	5.0%	8.1%	43.2%	1.9%
1979	4.9%	8.1%	43.0%	1.9%
1980	4.7%	8.0%	43.0%	1.8%
1981	4.4%	8.0%	43.0%	1.7%
1982	4.1%	7.8%	43.1%	1.7%
1983	3.9%	7.7%	43.3%	1.7%
1984	3.6%	7.6%	43.5%	1.5%
1985	3.6%	7.2%	43.5%	1.5%
1986	3.5%	6.9%	43.6%	1.5%
1987	3.4%	6.5%	43.7%	1.6%

TABLE A.4. Composition of Labor Force by Sex and Age, 1948-1987—Continued

	Women (percentage of total labor force)			
	16-19	20-24	25-64	65+
1948	3.0%	4.5%	20.2%	0.8%
1949	3.0	4.3	20.8	0.9
1950	2.8	4.3	21.6	0.9
1951	2.8	4.3	22.7	0.9
1952	2.8	4.0	23.2	0.9
1953	2.7	3.9	23.1	1.1
1954	2.6	3.8	23.4	1.0
1955	2.6	3.8	24.0	1.2
1956	2.8	3.7	24.5	1.2
1957	2.8	3.6	24.8	1.2
1958	2.7	3.7	25.1	1.2
1959	2.8	3.6	25.3	1.2
1960	2.9	3.7	25.4	1.3
1961	3.0	3.8	25.6	1.3
1962	3.0	4.0	25.7	1.3
1963	3.1	4.1	25.9	1.3
1964	3.2	4.4	25.9	1.3
1965	3.4	4.5	26.0	1.3
1966	3.8	4.7	26.2	1.3
1967	3.7	5.1	26.5	1.3
1968	3.7	5.4	26.7	1.3
1969	3.8	5.7	27.0	1.3
1970	3.9	5.9	27.0	1.3
1971	3.9	6.0	27.0	1.3
1972	4.1	6.2	26.9	1.3
1973	4.3	6.3	27.1	1.2
1974	4.4	6.4	27.5	1.1
1975	4.3	6.6	27.9	1.1
1976	4.3	6.7	28.4	1.1
1977	4.3	6.8	28.8	1.1
1978	4.4	6.9	29.3	1.1
1979	4.3	6.9	29.8	1.1
1980	4.1	6.8	30.5	1.1
1981	3.9	6.9	31.2	1.1
1982	3.7	6.8	31.8	1.1
1983	3.5	6.7	32.3	1.1
1984	3.4	6.6	32.8	1.0
1985	3.3	6.4	33.5	1.0
1986	3.2	6.2	34.0	1.0
1987	3.2	6.0	34.6	1.0

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.5. Division of Labor Force Between Goods and Service Producing Industries, 1947-1987

Year	Goods producing percent	Service producing percent
1947	42.2%	57.8%
1948	41.8	58.2
1949	40.1	59.9
1950	40.9	59.1
1951	41.7	58.3
1952	41.4	58.6
1953	42.0	58.0
1954	40.3	59.7
1955	40.5	59.5
1956	40.3	59.7
1957	39.7	60.3
1958	38.0	62.0
1959	38.3	61.7
1960	37.7	62.3
1961	36.8	63.2
1962	36.8	63.2
1963	36.4	63.6
1964	36.0	64.0
1965	36.1	63.9
1966	36.2	63.8
1967	35.4	64.6
1968	35.0	65.0
1969	34.6	65.4
1970	33.3	66.7
1971	32.2	67.8
1972	32.1	67.9
1973	32.4	67.6
1974	31.7	68.3
1975	29.4	70.6
1976	29.4	70.6
1977	29.5	70.5
1978	29.5	70.5
1979	29.5	70.5
1980	28.4	71.6
1981	28.0	72.0
1982	26.6	73.4
1983	25.9	74.1
1984	26.2	73.8
1985	25.5	74.5
1986	24.8	75.2
1987	24.4	75.6

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.6. Mean Duration of Unemployment and Total Unemployment Rate, 1947-1986

Year	Mean	TUR
1947	8.6%	3.8%
1948	10.0	5.9
1949	12.1	5.3
1950	9.7	3.3
1951	8.4	3.0
1952	8.0	2.9
1953	11.8	5.6
1954	13.0	4.4
1955	11.3	4.1
1956	10.5	4.3
1957	13.9	6.8
1958	14.4	5.5
1959	12.8	5.5
1960	15.6	6.7
1961	14.7	5.5
1962	14.0	5.7
1963	13.3	5.2
1964	11.8	4.5
1965	10.4	3.8
1966	8.7	3.8
1967	8.4	3.6
1968	7.8	3.5
1969	8.6	4.9
1970	11.3	5.9
1971	12.0	5.6
1972	10.0	4.9
1973	9.8	5.6
1974	14.2	8.5
1975	15.8	7.7
1976	14.3	7.1
1977	11.9	6.1
1978	10.8	5.8
1979	11.9	7.1
1980	13.7	7.6
1981	15.6	9.7
1982	20.0	9.6
1983	18.2	7.5
1984	15.6	7.2
1985	15.0	7.0
1986	14.5	

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.7. Unemployment Rate by Duration of Unemployment, 1947-1987

Year	Duration--less than 5 weeks	5-14 weeks	15-26 weeks	27+ weeks
1947	2.0%	1.2%	0.4%	0.3%
1948	2.1	1.1	0.3	0.2
1949	2.9	1.9	0.7	0.4
1950	2.3	1.7	0.7	0.6
1951	1.9	0.9	0.3	0.2
1952	1.8	0.8	0.2	0.1
1953	1.8	0.8	0.2	0.1
1954	2.5	1.8	0.8	0.5
1955	2.1	1.3	0.6	0.5
1956	2.1	1.2	0.5	0.3
1957	2.1	1.3	0.5	0.4
1958	2.6	2.1	1.2	1.0
1959	2.3	1.6	0.7	0.8
1960	2.5	1.7	0.7	0.7
1961	2.6	2.0	1.0	1.1
1962	2.4	1.6	0.8	0.8
1963	2.4	1.7	0.7	0.8
1964	2.3	1.5	0.7	0.7
1965	2.2	1.3	0.5	0.5
1966	2.1	1.0	0.4	0.3
1967	2.1	1.2	0.4	0.2
1968	2.0	1.0	0.3	0.2
1969	2.0	1.0	0.3	0.2
1970	2.6	1.6	0.5	0.3
1971	2.7	1.9	0.8	0.6
1972	2.6	1.7	0.7	0.7
1973	2.5	1.5	0.5	0.4
1974	2.8	1.7	0.6	0.4
1975	3.1	2.6	1.4	1.3
1976	3.0	2.3	1.1	1.4
1977	2.9	2.2	0.9	1.0
1978	2.8	1.9	0.7	0.6
1979	2.8	1.9	0.7	0.5
1980	3.1	2.3	1.0	0.8
1981	3.2	2.3	1.0	1.1
1982	3.5	3.0	1.5	1.6
1983	3.2	2.6	1.5	2.3
1984	3.0	2.2	1.0	1.4
1985	3.0	2.2	0.9	1.1
1986	2.9	2.2	0.9	1.0
1987	2.7	1.8	0.8	0.9

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.8. Distribution of Unemployed Workers by Type, 1967-1987

Year	Job losers	Job leavers	Reentrants	New entrants
1967	40.9%	14.6%	31.4%	13.2%
1968	38.0	15.3	32.3	14.4
1969	35.9	15.4	34.1	14.6
1970	44.2	13.4	30.0	12.3
1971	46.3	11.8	29.4	12.6
1972	43.2	13.1	29.8	13.9
1973	38.8	15.6	30.7	14.9
1974	43.5	14.9	28.4	13.2
1975	55.3	10.4	23.9	10.4
1976	49.7	12.2	26.0	12.1
1977	45.3	13.0	28.1	13.6
1978	41.7	14.1	29.9	14.3
1979	42.9	14.3	29.4	13.3
1980	51.7	11.7	25.2	11.4
1981	51.6	11.2	25.4	11.9
1982	58.7	7.9	22.3	11.1
1983	58.4	7.7	22.5	11.3
1984	51.8	9.6	25.6	13.0
1985	49.8	10.6	27.1	12.5
1986	49.0	12.3	26.2	12.5
1987	48.0	13.0	26.6	12.4

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.9. Unemployment Rate by Type of Unemployed Worker, 1970-1987

Year	Job Losers	Job Leavers	Reentrants	New entrants
1970	2.2%	0.7%	0.6%	1.5%
1971	2.8	0.7	0.7	1.7
1972	2.4	0.7	0.8	1.7
1973	1.9	0.8	0.7	1.5
1974	2.4	0.8	0.7	1.6
1975	4.7	0.9	0.9	2.0
1976	3.8	0.9	0.9	2.0
1977	3.2	0.9	1.0	2.0
1978	2.5	0.9	0.9	1.8
1979	2.5	0.8	0.8	1.7
1980	3.7	0.8	0.8	1.8
1981	3.9	0.8	0.9	1.9
1982	5.7	0.8	1.1	2.2
1983	5.6	0.7	1.1	2.2
1984	3.9	0.7	1.0	1.9
1985	3.6	0.8	0.9	2.0
1986	3.4	0.9	0.9	1.8
1987	3.0	0.8	0.8	1.6

Source: Table prepared by CRS based on data from BLS cited in the Economic Report of the President, Feb. 1988.

TABLE A.10. Civilian Unemployment Rates by Selected Demographic Characteristics, Selected Years, 1972-1985

Characteristic	1972	1975	1979	1980	1981	1982	1983	1984	1985
Total	5.6%	8.5%	5.8%	7.1%	7.6%	9.7%	9.6%	7.5%	7.2%
Male	5.0	7.9	5.1	6.9	7.4	9.9	9.9	7.6	7.0
Female	6.6	9.3	6.8	7.4	7.9	9.4	9.2	7.6	7.4
White	5.1	7.8	5.1	6.3	6.7	8.6	8.4	6.5	6.2
Black	10.4	14.8	12.3	14.3	15.6	18.9	19.5	15.9	15.1
Hispanic		12.2	8.3	10.1	10.4	13.8	13.7	10.7	10.5
Women maintaining families	7.2	10.0	8.3	9.2	10.4	11.7	12.2	10.3	10.4
Married men, wife present	2.8	5.1	2.8	4.2	4.3	6.5	6.5	4.6	4.3

* Annual averages of monthly figures.

Source: Table prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

TABLE A.11. Unemployment Rate by Educational Level, 1979 and 1983

	0-8 years	9-11 years	High school graduates	Some college	College graduates
1979	7.7%	12.2%	5.8%	4.3%	2.3%
1983	16.4	20.6	11.7	8.1	3.8

Source: Table prepared by CRS based on data from BLS cited in Statistical Abstract of the United States, 1987.

TABLE A.12. Unemployment Rates by Age, 1948-1987

Year	16-19	20-24	25-64	65+
1948	9.2%	6.2%	2.9%	3.2%
1949	13.4	9.3	4.8	4.9
1950	12.2	7.7	4.4	4.5
1951	8.2	4.1	2.8	3.4
1952	8.5	4.6	2.4	2.9
1953	7.6	4.7	2.4	2.2
1954	12.6	9.2	4.7	4.1
1955	11.0	7.0	3.6	3.6
1956	11.1	6.6	3.3	3.2
1957	11.6	7.1	3.4	3.4
1958	15.9	11.2	5.7	4.8
1959	14.6	8.5	4.4	4.3
1960	14.7	8.7	4.4	3.8
1961	16.8	10.4	5.4	5.1
1962	14.7	9.0	4.4	4.5
1963	17.2	8.8	4.3	4.1
1964	16.2	8.3	3.8	3.8
1965	14.8	6.7	3.2	3.3
1966	12.8	5.3	2.6	3.0
1967	12.9	5.7	2.6	2.8
1968	12.7	5.8	2.3	2.8
1969	12.2	5.7	2.2	2.2
1970	15.2	8.2	3.3	3.2
1971	16.9	10.0	4.0	3.5
1972	16.3	9.3	3.7	3.6
1973	14.5	7.8	3.1	3.0
1974	16.0	9.1	3.6	3.4
1975	19.9	13.6	6.1	5.2
1976	19.0	12.0	5.5	5.1
1977	17.8	11.0	4.9	5.0
1978	16.4	9.6	4.1	4.0
1979	16.1	9.1	4.0	3.4
1980	17.8	11.5	5.1	3.1
1981	19.6	12.3	5.5	3.2
1982	23.2	14.9	7.5	3.5
1983	22.4	14.5	7.6	3.8
1984	18.9	11.5	5.9	3.3
1985	18.6	11.1	5.6	3.2
1986	18.3	10.7	5.5	3.0
1987	16.9	9.7	4.8	2.5

Source: Table prepared by CRS based on data from BLS.

TABLE A.13. Unemployment Rates by Race and Age, 1987

	16-19	20-24	25-64	65+
White	14.4%	8.0%	3.3%	2.4%
Black	34.7	21.8	9.6	3.9

Source: Table prepared by CRS based on data from BLS.

TABLE A.14. Discouraged Workers by Race, 1972-1987

Year	Total (percent of population)	White (percent of population)	Black (percent of population)
1972	0.5%	0.5%	1.3%
1973	0.5	0.4	1.1
1974	0.5	0.4	1.1
1975	0.7	0.6	1.8
1976	0.6	0.5	1.5
1977	0.6	0.5	1.5
1978	0.5	0.4	1.5
1979	0.5	0.4	1.1
1980	0.6	0.5	1.5
1981	0.6	0.5	1.8
1982	0.9	0.7	2.6
1983	0.9	0.7	2.5
1984	0.7	0.5	2.1
1985	0.7	0.5	1.8
1986	0.6	0.5	1.5
1987	0.6	0.4	1.4

Source: Table prepared by CRS based on data from BLS.

TABLE A.15. Percent of the Total Labor Force Covered by Unemployment Compensation, for Selected Years, 1939-1985 (numbers in millions)

Year	Total labor force	Number covered by UC	Percent covered by UC
1939	55.6	22.6	40.6%
1949	63.7	33.1	52.0
1960	73.1	43.7	59.8
1965	78.5	50.3	64.1
1970	86.3	55.8	64.7
1975	94.9	69.7	73.4
1980	109.1	90.4	82.9
1985	117.5	98.2	83.6

NOTE: Monthly averages for 1939 and 1949; as of December for later years.

Source: Table prepared by CRS based on data from U.S. HHS. Social Security Bulletin, Annual Statistical Supplement, Selected Years.

TABLE A.16 Insured and Total Unemployment Rates and the TUR-IUR Gap, 1947-1987

Year	TUR	IUR	Gap: TUR-IUR
1947	3.9	3.1	0.8
1948	3.8	3.0	0.8
1949	5.9	6.2	-0.3
1950	5.3	4.5	0.8
1951	3.3	2.7	0.6
1952	3.0	2.8	0.2
1953	2.9	2.7	0.2
1954	5.5	5.2	0.3
1955	4.4	3.4	1.0
1956	4.1	3.1	1.0
1957	4.3	3.6	0.7
1958	6.8	6.5	0.3
1959	5.5	4.2	1.3
1960	5.5	4.7	0.8
1961	6.7	5.7	1.0
1962	5.5	4.3	1.2
1963	5.7	4.2	1.5
1964	5.2	3.7	1.5
1965	4.5	2.9	1.6
1966	3.8	2.2	1.6
1967	3.8	2.4	1.4
1968	3.6	2.2	1.4
1969	3.5	2.1	1.4
1970	4.9	3.4	1.5
1971	5.9	4.1	1.8
1972	5.6	3.0	2.6
1973	4.9	2.5	2.4
1974	5.6	3.4	2.2
1975	8.5	6.1	2.4
1976	7.7	4.4	3.3
1977	7.1	3.7	3.4
1978	6.1	2.8	3.3
1979	5.8	2.8	3.0
1980	7.1	3.9	3.2
1981	7.6	3.5	4.1
1982	9.7	4.7	5.0
1983	9.6	3.9	5.7
1984	7.5	2.7	4.8
1985	7.2	2.8	4.4
1986	7.0	2.8	4.2
1987	6.2	2.4	3.8

Source: Table prepared by CRS based on data from DoL.

TABLE A.17. Total Unemployment Compensation Benefits Paid Under All Programs in Constant 1987 Dollars a/ 1938-1987 (Dollars in Thousands)

Year	Regular State Programs b/	Extended Benefits Programs c/	FSB/ FSC d/	Total: All UC Programs
1938	3,178	0	0	3,178
1939	3,505	0	0	3,505
1940	4,209	0	0	4,209
1941	2,657	0	0	2,657
1942	2,397	0	0	2,397
1943	525	0	0	525
1944	401	0	0	401
1945	2,818	0	0	2,818
1946	6,378	0	0	6,378
1947	3,842	0	0	3,842
1948	3,733	0	0	3,733
1949	8,286	0	0	8,286
1950	6,484	0	0	6,484
1951	3,675	0	0	3,675
1952	4,282	13	0	4,295
1953	4,262	178	0	4,440
1954	9,031	457	0	9,488
1955	6,221	373	0	6,595
1956	6,148	255	0	6,403
1957	7,356	214	0	7,571
1958	15,982	1,889	0	17,870
1959	10,249	854	0	11,103
1960	11,011	0	0	11,011
1961	15,792	2,155	0	17,947
1962	11,320	766	0	12,086
1963	10,857	0	0	10,857
1964	9,775	0	0	9,775
1965	8,228	0	0	8,228
1966	6,477	0	0	6,477
1967	7,419	0	0	7,419
1968	7,015	0	0	7,015
1969	6,998	0	0	6,998
1970	12,064	105	0	12,169
1971	17,815	2,097	0	19,912
1972	14,935	1,421	0	16,356
1973	11,318	394	0	11,712
1974	14,909	1,323	0	16,232
1975	29,101	5,512	4,744	39,358
1976	19,769	4,946	5,884	30,599
1977	17,230	3,574	2,469	23,273
1978	14,604	1,296	28	15,927
1979	15,112	404	0	15,515

TABLE A.17. Total Unemployment Compensation Benefits Paid Under All Programs in Constant 1987 Dollars a/ 1938-1987—Continued
(Dollars in Thousands)

Year	Regular State Programs b/	Extended Benefits Programs c/	FSB/ FSC d/	Total: All UC Programs
1980	20,543	2,400	0	22,942
1981	18,127	1,694	0	19,820
1982	25,622	2,842	1,463	29,928
1983	21,648	1,940	6,266	29,854
1984	14,945	55	2,489	17,489
1985	15,891	62	823	16,776
1986	16,768	158	1	16,927
1987	14,532	40	0	14,572

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a/ Constant 1987 Dollars were calculated using the CPI-U.

b/ Includes State Programs, UC for Federal Employees, and UC for Ex-Servicemen.

c/ For years prior to 1971, includes the temporary extended benefits programs: for post Korean Veterans, 1952-1959, the temporary program in effect 1958-1959, and temporary extended UC 1961-1962. After 1971, includes the permanent extended benefits program.

d/ Federal Supplemental Benefits (FSB), 1975-1978, and Federal Supplemental Compensation, 1982-1986.

Source: Table prepared by CRS based on data from DoL.

TABLE A.18. Number of First Benefit Awards Under Regular State and the Federal-State Extended Benefits Programs, 1940-1986 (in thousands)

Year	Regular State program	Extended benefits program
1940	5,220,073	0
1941	3,439,323	0
1942	2,815,127	0
1943	664,015	0
1944	533,406	0
1945	2,822,922	0
1946	4,479,029	0
1947	3,983,603	0
1948	4,008,393	0
1949	7,363,767	0
1950	5,211,889	0
1951	4,127,134	0
1952	4,384,030	0
1953	4,227,616	0
1954	6,590,464	0
1955	4,508,404	0
1956	4,665,218	0
1957	5,574,620	0
1958	7,833,252	0
1959	5,816,912	0
1960	6,753,531	0
1961	7,067,370	0
1962	6,073,470	0
1963	6,040,577	0
1964	5,497,903	0
1965	4,813,229	0
1966	4,139,041	0
1967	4,619,249	0
1968	4,196,559	0
1969	4,212,022	0
1970	6,397,173	0
1971	6,627,071	1,419,045
1972	5,779,621	1,088,825
1973	5,328,007	244,331
1974	7,715,244	915,181
1975	11,160,042	4,012,063
1976	8,560,107	3,253,381
1977	7,885,020	2,555,536
1978	7,563,756	947,819
1979	8,074,970	292,783
1980	9,992,123	1,993,460
1981	9,393,364	1,207,206
1982	11,648,448	2,192,625

TABLE A.18. Number of First Benefit Awards Under Regular State and the Federal-State Extended Benefits Programs, 1940-1986--Continued
(in thousands)

Year	Regular State program	Extended benefits program
1983	8,907,250	1,402,129
1984	7,742,747	30,908
1985	8,350,363	38,139
1986	8,321,620	126,789

Source: Table prepared by CRS based on data from DoL.

TABLE A.19. Actual Duration of Benefit Receipt from Unemployment Compensation Programs, 1940-1986 (average duration in weeks)

Year	Regular State program	Extended benefits program
1940	9.8	0.0
1941	9.4	0.0
1942	10.0	0.0
1943	9.0	0.0
1944	7.7	0.0
1945	8.5	0.0
1946	13.4	0.0
1947	11.1	0.0
1948	10.7	0.0
1949	11.8	0.0
1950	13.0	0.0
1951	10.1	0.0
1952	10.4	0.0
1953	10.1	0.0
1954	12.8	0.0
1955	12.4	0.0
1956	11.4	0.0
1957	11.5	0.0
1958	14.8	0.0
1959	13.1	0.0
1960	12.7	0.0
1961	14.7	0.0
1962	13.1	0.0
1963	13.3	0.0
1964	13.0	0.0
1965	12.2	0.0
1966	11.2	0.0
1967	11.4	0.0
1968	11.6	0.0
1969	11.4	0.0
1970	12.3	0.0
1971	14.4	9.1
1972	14.0	8.5
1973	13.4	9.1
1974	12.7	9.2
1975	15.7	9.4
1976	14.9	10.1
1977	14.2	9.6
1978	13.3	9.5
1979	13.1	10.0
1980	14.9	9.0
1981	14.5	10.4
1982	15.9	9.1

TABLE A.19. Actual Duration of Benefit Receipt from Unemployment Compensation Programs, 1940-1986—Continued (average duration in weeks)

Year	Regular State program	Extended benefits program
1983	17.5%	9.4%
1984	14.4	19.4
1985	14.3	18.0
1986	14.6	10.0

Source: Table prepared by CRS based on data from DoL.

TABLE A.20. Number of Weeks Compensated by Unemployment Compensation Programs, 1940-1986

Year	Regular State program	Extended benefits program	Total of both programs
1940	51,083,545	0	51,083,545
1941	32,294,431	0	32,294,431
1942	28,026,602	0	28,026,602
1943	6,003,608	0	6,003,608
1944	4,124,040	0	4,124,040
1945	24,179,194	0	24,179,194
1946	59,813,263	0	59,813,263
1947	44,214,903	0	44,214,903
1948	42,694,939	0	42,694,939
1949	86,638,269	0	86,638,269
1950	67,859,529	0	67,859,529
1951	41,598,342	0	41,598,342
1952	45,777,490	0	45,777,490
1953	42,555,923	0	42,555,923
1954	84,295,467	0	84,295,467
1955	56,099,631	0	56,099,631
1956	53,158,758	0	53,158,758
1957	64,213,501	0	64,213,501
1958	115,766,897	0	115,766,897
1959	76,119,247	0	76,119,247
1960	85,630,399	0	85,630,399
1961	104,217,023	0	104,217,023
1962	79,325,480	0	79,325,480
1963	80,137,394	0	80,137,394
1964	71,380,122	0	71,380,122
1965	58,813,298	0	58,813,298
1966	46,547,194	0	46,547,194
1967	52,902,523	0	52,902,523
1968	48,659,673	0	48,659,673
1969	47,922,959	0	47,922,959
1970	78,838,046	0	78,838,046
1971	95,400,301	13,017,495	108,417,796
1972	81,108,373	9,303,890	90,412,263
1973	71,204,543	2,225,642	73,430,185
1974	97,803,298	8,354,012	106,157,310
1975	175,332,134	37,836,232	213,168,366
1976	127,424,765	32,926,886	160,351,651
1977	113,244,354	24,629,298	137,873,652
1978	100,960,622	8,992,561	109,953,183
1979	106,103,472	2,896,295	108,999,767
1980	148,952,074	17,939,818	166,891,892
1981	135,936,281	12,552,430	148,488,711
1982	185,387,401	19,961,569	205,348,970

TABLE A.20. Number of Weeks Compensated by Unemployment Compensation Programs, 1940-1986--Continued

Year	Regular State program	Extended benefits program	Total of both programs
1983	155,476,475	13,235,912	168,712,387
1984	111,629,750	600,184	112,229,934
1985	119,341,038	685,658	120,026,696
1986	121,516,272	1,270,883	122,787,155

Source: Table prepared by CRS based on data from DoL.

TABLE A.21. Average Weekly Unemployment Compensation Benefits in Constant 1986 Dollars and as a Ratio to the Average Weekly Wage in Unemployment Compensation Covered Employment 1940-1986

Year	Average Weekly Benefit Amount: Current Dollars	Average Weekly Benefit Amount: Constant Dollars	Ratio: Average Weekly Benefit to Wage
1940	$ 10.56	$ 82.62	0.391
1941	11.06	82.42	0.366
1942	12.66	85.11	0.353
1943	13.84	87.67	0.336
1944	15.90	99.13	0.359
1945	18.77	114.41	0.416
1946	18.50	103.96	0.396
1947	17.83	87.52	0.346
1948	19.03	86.76	0.341
1949	20.48	94.31	0.360
1950	20.76	94.59	0.344
1951	21.09	89.02	0.322
1952	22.79	94.05	0.330
1953	23.58	96.56	0.323
1954	24.93	101.73	0.335
1955	25.04	102.45	0.321
1956	27.02	108.94	0.333
1957	28.17	109.85	0.335
1958	30.54	115.92	0.353
1959	30.40	114.33	0.334
1960	32.87	121.79	0.352
1961	33.80	123.91	0.354
1962	34.56	125.22	0.349
1963	35.28	126.25	0.346
1964	35.96	127.02	0.338
1965	37.19	129.31	0.338
1966	39.76	134.23	0.347
1967	41.25	135.50	0.347
1968	43.43	136.90	0.343
1969	46.17	138.05	0.344
1970	50.31	142.05	0.357
1971	54.35	147.19	0.365
1972	55.82	146.34	0.361
1973	59.00	145.62	0.361
1974	64.25	142.81	0.365
1975	70.23	143.04	0.371
1976	75.16	144.78	0.371
1977	78.71	142.38	0.364
1978	83.67	140.60	0.364
1979	89.68	135.44	0.36

TABLE A.21. Average Weekly Unemployment Compensation Benefits in Constant 1986 Dollars and as a Ratio to the Average Weekly Wage in Unemployment Compensation Covered Employment 1940-1986—Continued

Year	Average Weekly Benefit Amount Current Dollars	 Constant Dollars	Ratio: Average Weekly Benefit to Wage
1980	98.95	131.66	0.364
1981	106.61	128.55	0.359
1982	119.34	135.56	0.375
1983	123.59	136.01	0.372
1984	123.47	130.32	0.355
1985	128.23	130.70	0.353
1986	135.72	135.72	0.358

a/ Constant Dollars were Calculated Using the CPI-U.

Source: Table prepared by CRS based on data from DoL.

TABLE A.22. Unemployment Compensation Benefit Exhaustion Rates, 1940-1986

	Regular program		Extended benefits	
Year	Number of exhaustees	Exhaustion ratio	Number of exhaustees	Exhaustion ratio
1940	2,590,183	0.51%		
1941	1,543,533	0.46		
1942	1,077,753	0.35	0	.
1943	193,891	0.25	0	.
1944	101,745	0.20	0	.
1945	250,440	0.18	0	.
1946	1,985,928	0.39	0	.
1947	1,271,821	0.31	0	.
1948	1,027,530	0.27	0	.
1949	1,934,709	0.29	0	.
1950	1,853,336	0.30	0	.
1951	810,580	0.20	0	.
1952	931,362	0.20	0	.
1953	764,420	0.21	0	.
1954	1,768,927	0.27	0	.
1955	1,272,231	0.26	0	.
1956	980,790	0.21	0	.
1957	1,139,246	0.23	0	.
1958	2,506,896	0.31	0	.
1959	1,675,963	0.30	0	.
1960	1,603,518	0.26	0	.
1961	2,366,012	0.30	0	.
1962	1,638,466	0.27	0	.
1963	1,572,071	0.25	0	.
1964	1,370,982	0.24	0	.
1965	1,087,384	0.21	0	.
1966	780,749	0.18	0	.
1967	867,446	0.19	0	.
1968	848,037	0.20	0	.
1969	810,718	0.20	0	.
1970	1,302,628	0.24	0	.
1971	2,057,217	0.30	713,551	0.50%
1972	1,821,630	0.29	539,046	0.50
1973	1,507,700	0.28	176,125	0.72
1974	1,938,550	0.31	468,040	0.51
1975	4,195,023	0.38	2,477,085	0.62
1976	3,270,042	0.38	2,405,641	0.74
1977	2,850,136	0.33	1,761,151	0.69
1978	2,030,546	0.27	548,790	0.58

TABLE A.22. Unemployment Compensation Benefit Exhaustion Rates, 1940-1986—Continued

Year	Regular program		Extended benefits	
	Number of exhaustees	Exhaustion ratio	Number of exhaustees	Exhaustion ratio
1979	2,037,095	0.27%	171,707	0.59%
1980	3,071,943	0.33	1,038,584	0.52
1981	2,989,177	0.32	862,491	0.71
1982	4,174,709	0.38	1,188,280	0.54
1983	4,179,622	0.38	839,897	0.60
1984	2,606,145	0.34	49,063	1.59
1985	2,575,095	0.31	51,220	1.34
1986	2,703,382	0.32	84,100	0.66

Source: Table prepared by CRS based on data from DoL.

TABLE A.23. Claimants Exhausting Extended Benefits, 1971-1986

Year	Number of Exhaustees
1971	713,551
1972	539,046
1973	176,125
1974	468,040
1975	2,477,085
1976	2,405,641
1977	1,761,151
1978	548,790
1979	171,707
1980	1,038,584
1981	862,491
1982	1,188,280
1983	839,897
1984	49,063
1985	51,220
1986	84,100

Source: Table prepared by CRS based on data from DoL.

TABLE A.24. Unemployment Compensation Gross and Net Reserves in Current Dollars and Dollars Adjusted for Average Wage Growth, 1940-1986
(in thousands)

Year	Gross reserves		Net reserves	
	Current dollars	Dollars adjusted for wage growth	Current dollars	Dollars adjusted for wage growth
1940	1,817,110	25,555,211	1,817,110	25,555,211
1941	2,524,463	31,733,243	2,524,463	31,733,243
1942	3,387,888	35,870,645	3,387,888	35,870,645
1943	4,715,510	43,439,850	4,715,510	43,439,850
1944	6,071,925	52,143,085	6,071,925	52,143,085
1945	6,914,010	58,242,603	6,914,010	58,242,603
1946	6,860,044	55,832,442	6,860,044	55,832,442
1947	7,303,287	53,794,322	7,303,287	53,794,322
1948	7,602,964	51,730,104	7,602,964	51,730,104
1949	7,009,585	46,771,594	7,009,585	46,771,594
1950	6,972,181	43,930,174	6,972,181	43,930,174
1951	7,781,930	45,153,969	7,781,930	45,153,969
1952	8,327,427	45,801,451	8,327,427	45,801,451
1953	8,912,680	46,407,487	8,912,680	46,407,487
1954	8,218,954	41,910,930	8,218,954	41,910,930
1955	8,263,724	40,197,326	8,260,724	40,182,733
1956	8,573,431	40,146,689	8,573,431	40,146,689
1957	8,661,942	39,101,187	8,659,312	39,089,315
1958	6,952,557	30,546,556	6,831,292	30,013,770
1959	6,892,002	28,811,450	6,674,297	27,901,352
1960	6,642,587	27,054,481	6,418,822	26,143,112
1961	5,801,545	23,077,432	5,567,780	22,147,560
1962	6,272,234	24,067,948	6,038,626	23,171,543
1963	6,647,281	24,747,397	6,421,119	23,905,410
1964	7,295,639	26,041,169	7,090,270	25,308,121
1965	8,356,595	28,870,862	8,172,316	28,234,204
1966	9,827,311	32,611,808	9,664,712	32,072,226
1967	10,777,076	34,405,519	10,702,198	34,166,473
1968	11,715,954	35,188,607	11,715,954	35,188,607
1969	12,636,017	35,750,774	12,636,017	35,750,774
1970	11,902,575	32,057,400	11,902,575	32,057,400
1971	9,725,314	24,809,474	9,725,314	24,809,474
1972	9,434,783	23,076,838	9,402,983	22,999,057
1973	10,976,344	25,478,045	10,882,144	25,259,390
1974	10,631,581	22,919,389	10,520,181	22,679,235
1975	4,659,331	9,304,949	3,070,231	6,131,426
1976	4,273,746	7,965,585	871,380	1,624,114
1977	5,525,852	9,648,595	950,381	1,659,444
1978	9,643,068	15,733,645	4,554,185	7,430,615
1979	12,240,581	18,398,152	8,582,608	12,900,052

TABLE A.24. Unemployment Compensation Gross and Net Reserves in Current Dollars and Dollars Adjusted for Average Wage Growth, 1940-1986—Continued
(in thousands)

	Gross reserves		Net reserves	
Year	Current dollars	Dollars adjusted for wage growth	Current dollars	Dollars adjusted for wage growth
1980	11,358,902	15,588,800	6,368,632	8,740,222
1981	11,751,596	14,792,164	5,479,457	6,897,193
1982	7,801,554	9,208,233	(2,827,304)	(3,337,088)
1983	7,569,344	8,568,728	(5,803,331)	(6,569,548)
1984	11,697,057	12,698,211	2,204,797	2,393,506
1985	16,181,085	16,828,541	10,069,416	10,472,325
1986	20,211,220	20,211,220	15,402,260	15,402,260

Source: Table prepared by CRS based on data from DoL.

TABLE A.25. Unemployment Compensation Reserve Ratio and High Cost Multiple, 1940-1986 (in thousands)

Year	Reserve ratio	High-cost multiple
1940	5.60%	
1941	5.99	
1942	6.19	
1943	7.13	
1944	8.78	
1945	10.38	
1946	9.35	
1947	8.44	
1948	7.91	
1949	7.47	
1950	6.76	
1951	6.56	
1952	6.52	
1953	6.41	
1954	6.00	
1955	5.56	
1956	5.21	
1957	4.99	
1958	3.99	
1959	3.57	
1960	3.29	
1961	2.80	
1962	2.84	
1963	2.88	
1964	2.96	
1965	3.17	
1966	3.40	
1967	3.54	
1968	3.54	
1969	3.46	
1970	3.11	
1971	2.41	1.18
1972	2.06	1.00
1973	2.13	1.04
1974	1.88	0.92
1975	0.53	0.24
1976	0.13	0.06
1977	0.13	0.06
1978	0.55	0.25
1979	0.91	0.41
1980	0.62	0.28
1981	0.49	0.22
1982	-0.24	-0.11
1983	-0.47	-0.21
1984	0.16	0.07
1985	0.68	0.30
1986	0.98	0.44

Source: Table prepared by CRS based on data from DoL.

TABLE A.26. Unemployment Compensation Receipts, Outlays, and Surpluses or Deficits as a Percent of Total Wages in Covered Employment, 1940-1986

Year	Receipts	Outlays	Surplus or deficit
1940	2.63%	1.60%	1.03%
1941	2.39	0.82	1.57
1942	2.08	0.63	1.45
1943	2.00	0.12	1.88
1944	1.91	0.09	1.82
1945	1.74	0.67	1.07
1946	1.24	1.49	-0.25
1947	1.27	0.90	0.37
1948	1.04	0.82	0.22
1949	1.05	1.85	-0.80
1950	1.16	1.33	-0.17
1951	1.26	0.71	0.55
1952	1.07	0.78	0.29
1953	0.97	0.69	0.28
1954	0.83	1.48	-0.65
1955	0.81	0.91	-0.10
1956	0.89	0.84	0.05
1957	0.89	1.00	-0.11
1958	0.86	2.05	-1.19
1959	1.05	1.22	-0.17
1960	1.17	1.40	-0.23
1961	1.23	1.72	-0.49
1962	1.39	1.26	0.13
1963	1.35	1.24	0.11
1964	1.27	1.05	0.22
1965	1.18	0.84	0.34
1966	1.07	0.62	0.45
1967	0.89	0.69	0.20
1968	0.77	0.61	0.16
1969	0.70	0.58	0.12
1970	0.65	1.01	-0.36
1971	0.65	1.23	-0.58
1972	0.85	0.98	-0.13
1973	0.98	0.79	0.19
1974	0.94	1.07	-0.13
1975	0.90	2.03	-1.13
1976	1.16	1.39	-0.23
1977	1.27	1.16	0.11
1978	1.35	0.93	0.4
1979	1.29	0.94	0.35
1980	1.11	1.34	-0.23
1981	1.03	1.17	-0.14
1982	1.03	1.74	-0.71
1983	1.18	1.44	-0.26
1984	1.37	0.92	0.45
1985	1.31	0.96	0.35
1986	1.16	0.98	0.18

Source: Table prepared by CRS based on data from DoL.

Table A.27. Federal Taxable Wage Base in Current Dollars and Dollars Adjusted for Average Wage Growth and Ratio of Taxable to Total Wages in Covered Employment, 1940-1986

Year	Federal taxable wage base		Ratio: taxable to total wages
	Current dollars	Dollars adjusted for average wage growth	
1940	$ 3,000	$42,191	0.928%
1941	3,000	37,711	0.918
1942	3,000	31,764	0.908
1943	3,000	27,636	0.893
1944	3,000	25,763	0.877
1945	3,000	25,272	0.879
1946	3,000	24,416	0.868
1947	3,000	22,097	0.843
1948	3,000	20,412	0.817
1949	3,000	20,018	0.813
1950	3,000	18,902	0.791
1951	3,000	17,407	0.760
1952	3,000	16,500	0.741
1953	3,000	15,621	0.716
1954	3,000	15,298	0.704
1955	3,000	14,593	0.683
1956	3,000	14,048	0.668
1957	3,000	13,542	0.650
1958	3,000	13,181	0.637
1959	3,000	12,541	0.617
1960	3,000	12,219	0.611
1961	3,000	11,933	0.600
1962	3,000	11,512	0.590
1963	3,000	11,169	0.581
1964	3,000	10,708	0.570
1965	3,000	10,365	0.558
1966	3,000	9,955	0.553
1967	3,000	9,577	0.533
1968	3,000	9,010	0.517
1969	3,000	8,488	0.497
1970	3,000	8,080	0.477
1971	3,000	7,653	0.453
1972	4,200	10,273	0.517
1973	4,200	9,749	0.500
1974	4,200	9,054	0.475
1975	4,200	8,388	0.452
1976	4,200	7,828	0.465
1977	4,200	7,334	0.451
1978	6,000	9,790	0.496
1979	6,000	9,018	0.474
1980	6,000	8,234	0.447

TABLE A.27. Federal Taxable Wage Base in Current Dollars and Dollars Adjusted for Average Wage Growth and Ratio of Taxable to Total Wages in Covered Employment, 1940-1986—Continued

	Federal taxable wage base		
Year	Current dollars	Dollars adjusted for average wage growth	Ratio: taxable to total wages
1981	6,000	7,552	0.423
1982	6,000	7,082	0.405
1983	7,000	7,924	0.431
1984	7,000	7,599	0.428
1985	7,000	7,280	0.415
1986	7,000	7,000	0.407

Source: Table prepared by CRS based on data from DoL.

TABLE A.28. Average Unemployment Compensation Tax Rates as a Percent of Total and Taxable Wages in Covered Employment, 1940-1986

Year	Percent of total wages	Percent of taxable wages
1940	2.5%	2.7%
1941	2.4	2.6
1942	2.0	2.2
1943	1.9	2.1
1944	1.7	1.9
1945	1.5	1.7
1946	1.2	1.4
1947	1.2	1.4
1948	1.0	1.2
1949	1.1	1.3
1950	1.2	1.5
1951	1.2	1.6
1952	1.1	1.5
1953	0.9	1.3
1954	0.8	1.1
1955	0.8	1.2
1956	0.9	1.3
1957	0.9	1.3
1958	0.8	1.3
1959	1.1	1.7
1960	1.2	1.9
1961	1.2	2.1
1962	1.4	2.4
1963	1.3	2.3
1964	1.3	2.2
1965	1.2	2.1
1966	1.1	1.9
1967	0.9	1.6
1968	0.8	1.5
1969	0.7	1.4
1970	0.6	1.3
1971	0.6	1.4
1972	0.9	1.7
1973	1.0	2.0
1974	0.9	2.0
1975	0.9	2.0
1976	1.2	2.6
1977	1.3	2.9
1978	1.4	2.8
1979	1.4	2.6
1980	1.1	2.4
1981	1.0	2.4
1982	1.0	2.5
1983	1.2	2.8
1984	1.4	3.3
1985	1.3	3.1
1986	1.1	2.8

Source: Table prepared by CRS based on data from DoL.

TABLE A.29. Unemployment Compensation Weeks Claimed as a Percent of Total Unemployment for Regular State Programs (1946-1987) and All Programs (1967-1987)

Year	Regular State Programs	All UC Programs
1946	0.58	
1947	0.44	
1948	0.44	
1949	0.54	
1950	0.46	
1951	0.47	
1952	0.54	
1953	0.54	
1954	0.53	
1955	0.44	
1956	0.44	
1957	0.51	
1958	0.55	
1959	0.45	
1960	0.49	
1961	0.49	
1962	0.46	
1963	0.44	
1964	0.42	
1965	0.39	
1966	0.37	
1967	0.41	0.43
1968	0.39	0.42
1969	0.39	0.41
1970	0.44	0.48
1971	0.43	0.52
1972	0.38	0.45
1973	0.37	0.41
1974	0.44	0.50
1975	0.50	0.75
1976	0.40	0.67
1977	0.38	0.56
1978	0.38	0.43
1979	0.40	0.42
1980	0.44	0.50
1981	0.37	0.41
1982	0.38	0.45
1983	0.32	0.44
1984	0.29	0.34
1985	0.31	0.34
1986	0.32	0.33
1987	0.31	0.32

Source: Table prepared by CRS based on data from DoL.

TABLE A.30. Federal-State Extended Benefits in Billions of Constant 1986 Dollars 1971-1986

Year	Federal Share	Total
1971	$ 899	$ 1,798
1972	632	1,263
1973	178	353
1974	607	1,198
1975	2,538	5,079
1976	2,228	4,422
1977	1,621	3,192
1978	588	1,163
1979	181	360
1980	1,206	2,346
1981	810	1,636
1982	1,323	2,789
1983	945	1,946
1984	19	42
1985	28	76
1986	69	147

a/ Constant 1986 Dollars were computed using the CPI-U.

Source: Table prepared by CRS based on data from DoL.

TABLE A.31. Unemployment Compensation Receipts, Outlays, Surpluses and Deficits as a Percent of Trend GNP a/
Fiscal Year 1962 - Fiscal Year 1987

Fiscal Year	UC Receipts	UC Outlays	UC Surplus/ Deficit	Total Federal Surplus/ Deficit
1962	0.60	0.68	-0.08	-1.28
1963	0.68	0.55	0.13	-0.79
1964	0.61	0.48	0.13	-0.90
1965	0.53	0.36	0.17	-0.20
1966	0.48	0.28	0.20	-0.48
1967	0.42	0.27	0.16	-1.02
1968	0.37	0.27	0.09	-2.75
1969	0.33	0.26	0.08	0.33
1970	0.32	0.31	0.01	-0.26
1971	0.31	0.53	-0.21	-1.96
1972	0.34	0.55	-0.21	-1.83
1973	0.44	0.39	0.05	-1.08
1974	0.45	0.40	0.05	-0.41
1975	0.41	0.82	-0.41	-3.26
1976	0.45	1.10	-0.64	-4.15
1977	0.59	0.79	-0.21	-2.78
1978	0.66	0.57	0.10	-2.56
1979	0.68	0.48	0.20	-2.60
1980	0.62	0.73	-0.11	-1.63
1981	0.59	0.73	-0.15	-2.75
1982	0.57	0.81	-0.24	-2.71
1983	0.59	0.99	-0.40	-4.04
1984	0.73	0.54	0.20	-6.04
1985	0.69	0.47	0.22	-4.96
1986	0.59	0.44	0.16	-5.23
1987	0.58	0.39	0.19	-3.41

a/ Trend GNP was calculated by taking the average rate of growth in GNP from 1962 to 1987 and, from 1962 forward, increasing each years' GNP by that rate.

Source: Table prepared by CRS based on data from: U.S. Office of Management and Budget. Historical Tables, Budget of the United States Government, Fiscal Year 1989.

TABLE A.32. Average Weekly Wage in Covered Employment and Wage Growth Index, 1940-1986

Year	Average weekly wage in covered employment	Wage growth index
1940	$ 27.02	0.071
1941	30.23	0.080
1942	35.89	0.094
1943	41.25	0.109
1944	44.25	0.116
1945	45.11	0.119
1946	46.69	0.123
1947	51.59	0.136
1948	55.85	0.147
1949	56.95	0.150
1950	60.31	0.159
1951	65.49	0.172
1952	69.09	0.182
1953	72.98	0.192
1954	74.52	0.196
1955	78.12	0.206
1956	81.15	0.214
1957	84.18	0.222
1958	86.49	0.228
1959	90.90	0.239
1960	93.30	0.246
1961	95.53	0.251
1962	99.03	0.261
1963	102.07	0.269
1964	106.46	0.280
1965	109.99	0.289
1966	114.51	0.301
1967	119.03	0.313
1968	126.52	0.333
1969	134.31	0.353
1970	141.09	0.371
1971	148.96	0.392
1972	155.36	0.409
1973	163.71	0.431
1974	176.27	0.464
1975	190.28	0.501
1976	203.88	0.537
1977	217.63	0.573
1978	232.90	0.613
1979	252.82	0.665
1980	276.89	0.729
1981	301.89	0.794
1982	321.95	0.847

TABLE A.32. Average Weekly Wage in Covered Employment and Wage Growth Index, 1940-1986—Continued

Year	Average weekly wage in covered employment	Wage growth index
1983	335.68	0.883
1984	350.04	0.921
1985	365.38	0.962
1986	380.00	1.000

Source: Table prepared by CRS based on data from DoL.

TABLE A.33. Unemployment Compensation Recipients in 1986 by Income to Need Ratio

Income to Need Ratio	Percent of All UC Recipients	Percent of Total Population
Less than .5	2.4%	5.3%
.5 to .99	6.9	8.3
1 to 1.99	35.5	28.8
2 or More	55.3	57.6

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE A.34. Unemployment Compensation Recipients in 1986 by Relationship to Household Head

Relationship to Household Head	Percent of All UC Recipients	Percent of Total Population
Family Household Head	47.8%	27.0%
Single Household Head	12.6	10.5
Spouse of Household Head	20.8	21.6
Child of Household Head	10.6	33.1
Other Relatives	3.2	4.4
Persons Unrelated to Household Head	4.9	3.4

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE A.35. Unemployment Compensation Recipients in 1986 by Number of Earners in the Family

Number of Earners in Family	Percent of All UC Recipients	Percent of Total Population
None..................................	1.9%	14.4%
One...................................	34.0	31.9
Two...................................	43.5	36.9
Three or More.........................	20.6	16.8

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE A.36. Unemployment Compensation Recipients in 1986 by Sex

Sex	Percent of All UC Recipients	Percent of Total Population
Male..................................	63.9%	48.6%
Female................................	36.1	51.4

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE A.37. Unemployment Compensation Recipients: Other Sources of Transfers Received by Family Members 1986

Income Transfer	Percent of UC Recipients Receiving Benefits
Need-Tested Cash (SSI, AFDC, or State Public Assistance)	5.6%
Social Security	10.8

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE A.38. Number of Weeks not Worked by UC Recipients: by Formal Educational Attainment, 1986

Number of Weeks Did Not Work	Did Not Graduate High School	Graduated High School	All UC Recipients
1-3	20.7%	19.4%	19.8%
4-7	10.4	12.3	11.7
8-11	8.3	8.8	8.7
12-15	12.3	14.0	13.5
16-19	5.9	7.4	7.0
20-26	18.0	16.9	17.3
27-36	10.5	9.2	9.6
37 or More	14.0	11.8	12.5
N =	2,198,578	5,131,862	7,330,439

Source: Table prepared by CRS based on data from the March 1986 CPS.

APPENDIX B: UNEMPLOYMENT COMPENSATION LEGISLATION, 1977-1987

Emergency Unemployment Compensation Extension Act of 1977 (P.L. 95-19)

Reduced length of FSB emergency benefit period from 26 weeks to 13 weeks; extended FSB program to November 1977 for new claims; added special disqualifications for refusal of suitable work and defined suitable work for FSB claimants; provided general revenue financing of FSB beginning April 1, 1977; extended the deferral period for borrowing States for 2 years; clarified the required denial of benefits to undocumented aliens; permitted States to extend the required denial of benefits to school employees to vacation periods and holiday recesses in addition to the period occurring between school terms.

The Revenue Act of 1978 (P.L. 95-600)

Subjected unemployment benefits to taxation for those whose total income exceeds certain amounts.

Unemployment Compensation Amendments of 1979 (P.L. 96-84)

Extended the exclusion of certain alien farmworkers for 2 years but provided that these workers shall be counted in determining if a farm operator has enough workers or payroll to be subject to FUTA coverage.

Multiemployer Pension Plan Amendments Act of 1980 (P.L. 96-364)

Amended pension standard to require deduction of pension payments only in specified circumstances and to allow States to consider an individual's contribution to the pension in determining the amount to be deducted from unemployment benefits; required States to prohibit payment of EB beyond 2 weeks to an interstate claimant if the claim was filed in an agent State where an EB period was not in effect; required ex-service members to have 1 year instead of 90 days of active service before they can be eligible for benefits.

Omnibus Reconciliation Act of 1980 (P.L. 96-499)

Terminated Federal funding of unemployment benefits paid to CETA/Public Service Employment workers; eliminated Federal share of the first week of EB in any State that does not have a noncompensable waiting week requirement for regular benefits; required denial of EB to individuals who fail to meet certain specified requirements concerning application for suitable work, or who fail to actively engage in seeking work; prohibited States from paying EB unless State law provided duration of unemployment disqualifications for EB claimants.

Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35)

Imposed interest charges up to 10 percent a year under certain conditions on loans obtained by State unemployment programs after April 1, 1982; cut an estimated $3 to $4 billion from the EB program in FY 1983; eliminated national EB trigger; increased from 4 percent to 5 percent the State EB trigger (and from 5 percent to 6 percent the optional trigger if a State waives the 120 percent requirement); disqualified ex-service members who separate from the service when they had an opportunity to reenlist; required offsetting of unemployment benefits by amount of child support owed by a claimant; prohibited States from granting EB to any claimant who qualified for regular benefits with fewer than 20 weeks of work (or the equivalent) in his base period.

Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248)

Increased FUTA taxable wage base from $6,000 to $7,000 and net Federal tax rate from 0.7 percent to 0.8 percent (effective January 1, 1983); increased the gross Federal tax rate from 3.4 percent to 6.2 percent (effective January 1, 1985), including a 0.2 percent temporary tax until EUCA debt is repaid. Allocated a 90 percent offset credit (or .54 percent of the FUTA tax) to ESAA. Allocation of Federal taxes was revised, with 60 percent to ESAA account and 40 percent to EUCA account until debt is repaid. A fifth year added tax credit reduction for debtor States was amended to eliminate the cost rate/tax rate comparison in qualifying States. Lowered the earnings level at which the UC benefits are taxable from $20,000 to $12,000 for singles and from $25,000 to $18,000 for married individuals. Debtor States were permitted to make repayments from experience-rated trust fund monies. Allowed States with very high insured unemployment rates to defer a portion of their interest payments. Wages paid certain student interns were exempted from FUTA. Initiated a temporary program of FSC providing for 6 to 10 weeks of benefits, with program terminating March 31, 1983. Extended for 1982-83 the FUTA exemption on wages paid certain alien farmworkers. Directed DoL to assist States desiring to adopt short-time compensation. Extended the Reed Act for 10 years, permitting States to restore depleted Reed funds if State has solvent trust fund.

Miscellaneous Tax Act of 1982 (P.L. 97-362)

Extended for 2 years a FUTA exclusion of services performed on fishing vessels with crews of fewer than 10; amended the Unemployment Compensation for Ex-Service Members (UCX) program to provide that ex-service members may qualify if they leave the service after a full term of enlistment; imposed a 4-week waiting period on UCX benefits; limited UCX duration (including EB) to a maximum of 13 weeks; required UCX payments to be charged to Department of Defense after October 1, 1983.

Surface Transportation Assistance Act of 1982 (P.L. 97-424)

Revised triggers and duration of benefits under Federal Supplemental Unemployment Compensation Act of 1982. Provided for an additional 26 weeks of FSC for each State, according to insured unemployment levels.

Social Security Amendments of 1983 (P.L. 98-21)

Extended FSC program 6 months for conditions under which interest may be deferred. Required States to provide that nonprofessional employees of schools and colleges be denied benefits between terms and during holidays and vacation periods. Gave States option to extend denial to individuals performing services for or on behalf of schools, even though not employees of those schools. Permitted States to deduct from an individual's unemployment check amounts for health insurance if individual agrees. Allowed States to modify availability requirements for EB claimants to take account of jury duty or hospitalization if such exemptions also apply to regular claimants. Removed from FUTA "wage" exclusions, beginning January 1985, certain employer payments relating to employee retirement benefits and sick pay.

Federal Supplemental Compensation Amendments of 1983 (P.L. 98-135)

Extended provisions of the Act to March 31, 1985. Revised triggers and duration of FSC; added exclusion from taxable wages of any payment made by an employer to a survivor or estate of a former employee after the calendar year in which the employee dies; extended for 2 years, to December 31, 1985, exclusion from coverage of wages paid certain alien farmworkers under contract for fixed periods; directs Secretary of Labor to make special reports on feasibility of area triggers for EB, structural unemployment among claimants, eligibility of Federal retirees and Federal prisoners for benefits.

Deficit Reduction Act of 1984 (P.L. 98-369)

Extended definition of wages to all tips reported by employee to employer, including tips made by credit cards as well as cash; extended for 2 years the exclusion of services performed on fishing vessels with crews of fewer than 10 whose remuneration involves a share in the catch; required that State UI agencies provide for exchange of information with agencies administering other programs for purposes of income and eligibility verification; required all States to require employers to make quarterly reports of wages to a State agency.

Small Business Unemployment Tax Act of 1984 (P.L. 98-601)

Permitted State UI laws to provide certain small businesses (quarterly total wages under $50,000) opportunity for phasing in to a maximum tax rate of 5.4 percent, from 1985 to 1989.

Amendments to Internal Revenue Code of 1984 (P.L. 98-611)

Provided a 1-year (1984 and 1985) extension of an employer credit against FUTA and FICA taxes for employer-paid costs of education assistance for employees.

Amendments to Internal Revenue Code of 1984 (P.L. 98-612)

Provided a 1-year (1985) extension of an employer credit against FUTA and FICA taxes for employer-paid costs of group legal services for employees.

Amendment to Federal Supplemental Compensation Act of 1982 (P.L. 99-15)

Extended FSC payments to any individual who was receiving FSC (for the week including March 31, 1985) for a period of consecutive weeks for each of which he/she met the FSC eligibility requirements; States were empowered to pay FSC in accordance with this amendment for weeks beginning after March 31, 1985, and were to be reimbursed in accordance with the provisions of the Federal Supplemental Compensation Act of 1982; remaining weeks of benefits were to be paid only for consecutive weeks for unemployment.

Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272)

Amended the Social Security Act to provide that amounts may be deducted from unemployment benefits and used to pay overpayments made to an individual under a Federal or State UI law that was not previously recovered; provided that the consecutive weeks of unemployment requirement in FSC be disregarded for certain members of the National Guard by reason of performing certain temporary disaster services; exempted from FUTA wages paid (before January 1, 1988) for agricultural labor performed by aliens admitted into the United States pursuant to certain sections of the Immigration and Naturalization Act; exempted permanently from FUTA wages paid (after September 19, 1985) to summer camp counselors who are full-time students; exempted permanently from FUTA wages paid (after December 31, 1980) to certain fishing boat crew members; adjusted the railroad unemployment tax to increase tax rate, added a surtax if the Railroad Unemployment Insurance (RUI) program must borrow from the retirement program, and eliminated the expiration date of borrowing authority; amended provisions relating to TAA to include eligibility for agricultural workers and firms; amended provisions requiring a worker to be enrolled or have completed, a job search program in order to be eligible for TAA allowances; and clarified the meaning of "weeks of employment"; provided worker eligibility for a training allowance under any Federal law, the amount of such allowance to be deducted from the TRA; required the Secretary to approve training programs, to the extent funds are available, to include on-the-job training, any training approved by JTPA, PIC, and other programs; required reimbursement for any adversely affected worker for expenses incurred while participating in a job search program; terminated the TAA after September 30, 1991.

Tax Reform Act of 1986 (P.L. 99-514)

Included as taxable income (for purposes of income tax) any amount received under a law of the United States or of a State which is in the nature of UC received after December 31, 1986, in taxable years ending after such date; extended termination of TJTC from December 31, 1985, to December 31, 1988, and modified conditions of credit; excluded from FUTA service performed in the employ of a qualified Indian tribal government if it was a service performed (a) before, on, or after date of enactment (October 22, 1986), but before January 1, 1988, and (b) during a period in which the Indian tribal government was not covered by a State UI program, and with respect to which the FUTA tax had not been paid.

Alien Farmworkers Unemployment Tax Exclusion Act of 1986 (P.L. 99-595)

Extended the exclusion from FUTA of wages paid to certain alien farmworkers from "before January 1, 1988" to "before January 1, 1993."

Immigration Reform and Control Act of 1986 (P.L. 99-603)

Provided that if at the time an application for benefits is submitted and the required documentation is presented but not verified, and if the State determines that such individual is not in satisfactory immigration status, the State shall deny or terminate the individual's eligibility for benefits, and make available to the individual a fair hearing; required the Commissioner of the Immigration and Naturalization Service (INS) to implement a system for verification of immigration status to be available to all the States by January 1, 1987.

Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203)

Amended the applicability of earlier amendments to the EB law in order for States to be entitled to Federal reimbursement for EB payments; authorized up to three demonstration projects to test the feasibility of providing self-employment allowances to UI claimants; extended the 0.2 percent surtax, on the employer payroll tax imposed by FUTA, from 1987 to 1990; transferred the 0.2 percent surtax on payrolls within the Unemployment Trust Fund from the ESAA to the FUA and the EUCA; increased the statutory ceilings of two accounts in the Unemployment Trust Fund (the FUA ceiling increased from 1/8 to 5/8 of total covered wages, and the EUCA ceiling increased from 1/8 to 3/8 of total covered wages); required the charging of interest on advances from the general fund to the EUCA and FUA accounts; required the crediting of interest paid by States on title XII loans to the FUA instead of to the general fund.

APPENDIX C. TEMPORARY EXTENSIONS DURING RECESSIONS

Since the creation of the permanent Extended Benefits (EB) program, during recessionary periods Congress found it necessary to enact temporary programs and an additional "third tier" program to supplement the regular and EB programs. As economic activity decreases and unemployment increases, the duration of unemployment spells lengthens and such policies provide additional protection for eligible claimants. While States are not prohibited from developing their own benefit extension programs, recessions are thought to be national economic events beyond the control of States. As a result, significant developments in benefit extension have been primarily Federal initiatives. This section will review the temporary extended benefit programs and supplemental benefit programs enacted by Congress since 1958.

A. Past Programs of Extended Benefits 1/

1. The Temporary Unemployment Compensation Act of 1958

The Temporary Unemployment Compensation Act of 1958 (TUC), (P.L. 85-441), was the first of several emergency UC programs designed to deal with unemployment during recessions. TUC allowed States to enter into an agreement with the U.S. Secretary of Labor to pay extended benefits to regular UC claimants who

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1/ U.S. Department of Labor. Employment and Training Administration. Fifty Years of Unemployment Insurance--A Legislative History: 1935-1985. This is the primary source of information for this section. Occasional Paper 86-5, 1986.

had exhausted their benefits. The program provided for up to 13 additional weeks of benefits to claimants who had exhausted their benefits between June 30, 1957 and April 1, 1959. Federal employees and veterans were eligible for benefits until June 30, 1959. The program was financed by Federal loans without interest to States providing the program. Repayment was made by transferring funds from the accounts of various States in the Unemployment Trust Fund to the general fund; however, if this method failed, the advances were recovered through reduced employer tax credits taken against the FUTA tax beginning in 1963.

2. The Temporary Extended Unemployment Compensation Act of 1961

The second temporary emergency program, the Temporary Extended Unemployment Compensation Act (TEUC) of 1961 (P.L. 87-6), provided federally financed benefits to exhaustees of the regular UC program. States already offering benefits beyond 26 weeks of either regular or additional benefits were reimbursed for the amounts above 26 weeks that they provided, which was counted toward the 13 weeks offered by TEUC. TEUC provided one-half of the regular benefit entitlement up to a maximum of 13 weeks, for a combined maximum of 39 weeks of regular and extended benefits. Benefits were available to workers, Federal civilian employees and ex-servicemen who exhausted regular benefits between June 30, 1960 and April 1, 1962. The program was financed by a temporary addition to the FUTA tax of 0.4 percent in 1962 and 0.25 percent in 1963.

3. The Emergency Unemployment Compensation Act of 1971

The Emergency Unemployment Compensation Act of 1971 (P.L. 92-224) created a new temporary program of extended benefits in addition to the regular and extended UC programs. This "third-tier" of temporary compensation was effective from January 30, 1972 to September 30, 1972 and entirely financed by the Federal government. The program used an IUR trigger along with an adjustment rate for exhaustees that was required to reach or exceed 6.5 percent during a period of 13 consecutive weeks in order for a State to become eligible for benefit payments.

The program offered emergency benefits for the lesser of 13 weeks or half of the State's regular benefit duration. However, the total duration of the combined temporary compensation and regular and extended benefits could not exceed 52 weeks.

The Act provided for funding of the benefit payments from EUCA. When necessary, loans were made to EUCA from general revenues to continue the funding for benefits. These loans were repayable only when the conditions existed among all the Federal accounts in the Unemployment Trust Fund such that the accounts were at their statutory ceilings and FUTA revenue credits were redistributed among these accounts. 2/

4. The Federal Supplemental Benefits Program

The Federal Supplemental Benefits (FSB) program was created by the Emergency Unemployment Compensation Act of 1974 (P.L. 93-572). The FSB program initially supplemented the existing regular and extended UC benefits by extending the potential benefit duration by up to 13 weeks, but not exceeding

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2/ National Commission on Unemployment Compensation, p. 60.

52 weeks from the three programs combined. Benefits were available from January 1975 to March 1977 and were financed by loans to EUCA from general revenues.

States were required to start an EB period and an emergency benefit period when the State IUR was 4 percent and equalled 120 percent of the IUR during the corresponding period in the prior 2 years, or when the national IUR reached 4.5 percent. Once an emergency benefit period was triggered on, it remained in effect for at least 26 weeks.

Through the enactment of the Tax Reduction Act of 1975 (P.L. 94-12), Congress increased the maximum FSB period available under the Emergency Unemployment Compensation Act from 13 to 26 weeks of benefits. This additional benefit was available from March 1975 to September 1975 and later was extended through December 1975 by P.L. 94-45. This amendment provided for a maximum potential benefit duration of 65 weeks of combined regular UC, EB, and FSB compensation.

The Emergency Compensation and Special Unemployment Assistance Extension Act of 1975 (P.L. 94-45) further modified the FSB program. Beyond extending the duration of emergency compensation to 65 weeks, beginning in January 1976, P.L. 94-45 provided varying numbers of weeks of benefit durations depending on the State's IUR. If a State's IUR reached 5 percent but was less than 6 percent, 13 weeks of emergency benefits were available; when the IUR was 6 percent, benefits became payable for up to 26 weeks. The payment of benefits was financed by the EUCA. The FSB program was again amended and extended through January 1978 by P.L. 95-19. This legislation reduced the maximum number of weeks from 26 to 13 weeks of benefits and altered the financing of FSB, providing for general revenue funding beginning in April 1977. The law also limited the payment of benefits to two years after the end of the benefit year in which the claimant had exhausted regular UC benefits. The law also altered FSB through requirements on claimants that went beyond those in the regular UC program. Specifically, Federal disqualifications for refusal of suitable work and failure to actively seek work were added to FSB's eligibility criteria. "Suitable work" was defined specifically for the FSB program, and fraud on the part of employer or claimant required special penalty and repayment provisions under the FSB program. New obligations of availability and work search were imposed on claimants, requiring them to be available for jobs less suitable than under the regular UC program's requirements.

5. The Federal Supplemental Compensation Program

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) created the Federal Supplemental Compensation (FSC) program. FSC provided additional weeks of benefits for unemployed claimants who had exhausted their regular and extended benefits on or after June 1, 1982. Federal general revenues fully funded FSC benefit and administrative costs.

Unemployed workers were eligible for FSC benefits if their entitlement had ended on or after June 1, 1982. To qualify for benefits, a claimant must have exhausted all State UC and EB claims, continued to meet the eligibility requirements of the State's UC and EB programs, and worked full-time for 20 weeks during the State's base period.

Under FSC, benefits were paid in States for varied durations that depended on the economic conditions in the State. For States that had triggered EB and were in an EB period on or after June 1, 1982, FSC provided up to 10 additional weeks of benefits. For States with an IUR at or above 3.5 percent, the program provided eight additional weeks of benefits. In the remaining States, FSC offered up to six weeks of extra benefits. State maximum FSC entitlements could change as frequently as every four weeks depending on changes in the IUR.

A change in a State's maximum FSC also changed the number of weeks payable to all eligible FSC recipients. 3/

FSC was revised in January 1983 by the Surface and Transportation Assistance Act of 1982 (P.L. 97-424). This bill changed the duration of benefits available under FSC and the triggers that initiated benefit periods. States with an IUR of 6.0 percent or more had durations of up to 16 weeks of FSC benefits; States with an IUR between 6.0 percent and 4.5 percent and having had an EB period between June 1, 1982 and enactment of P.L. 97-424 (January 1983) could pay up to 14 weeks of FSC; States with an IUR between 6.0 and 4.5 percent and having an EB period after the enactment of P.L. 97-424 (January 1983) could pay up to 12 weeks of FSC; States with an IUR between 4.5 and 3.5 percent could pay up to 10 weeks of benefits; and any other States could pay up to a maximum of eight weeks of FSC benefits.

These amendments also liberalized the eligibility requirements, allowing exhaustees to become eligible for FSC regardless of whether they met the regular UC eligibility requirements during the time between exhaustion of benefits and enactment of this extension. For States triggering an FSC benefit period with IUR of over 3.5 percent, the minimum duration was 4 weeks in any unemployment period the State triggered.

FSC was originally set to expire on March 31, 1983, but the program was extended by the Social Security Amendments of 1983 (P.L. 98-21) until September 30, 1983. Under these amendments, the duration of benefits for individuals who began receiving FSC after April 1, 1983 were changed to:

o 14 weeks in States with an average IUR of 6.0 percent and above;

o 12 weeks in States with an average IUR of 5.0 to 5.9 percent;

3/ Corson, Walter, Grossman, Jean, and Walter Nicholson. An Evaluation of the Federal Supplemental Compensation Program. Mathematica Policy Research, Inc. Princeton, N.J. Jan. 31, 1986. p. 4.

- o 10 weeks in States with average IUR of 4.0 to 4.9 percent;
- o 8 weeks in all other States.

Individuals who had received and exhausted FSC benefits on or before April 1, 1983, were provided an extension equal to three-fourths of the basic FSC entitlement, payable in a State under the following conditions:

- o 10 weeks in States with an average IUR of 6.0 percent or more;
- o 8 weeks in States with an average IUR of 4.0 to 5.9 percent;
- o 6 weeks in States with an average IUR of 4.0 percent or less.

These additional FSC benefits were also available to beneficiaries who began receiving FSC benefits before April 1, 1983, but had not exhausted their entire entitlements. However, the combined entitlement received before and after April 1, 1983 could not exceed the maximum number of weeks of basic FSC available in the claimant's State. Furthermore, claimants who had not exhausted their FSC benefits by the program's expiration on September 30, 1983, were eligible to receive up to 50 percent of the remaining entitlement, and no new claimants could be added to the program on or after the expiration date.

Extensive Congressional debate caused the program to expire before a decision was reached on the extension of FSC. A temporary 18-day extension covered claimants until deliberations led to enactment of the Federal Supplemental Compensation Amendments of 1983 (P.L. 98-135) extending the program until March 1985.

Several of the provisions in P.L. 98-135 represented significant departures from previous modifications of the FSC program. The amendments limited an individual entitlement duration at the level for which they qualified when they first filed an FSC claim, and it could not change if the

State's maximum FSC duration changed. 4/ In addition, a State's FSC benefit period was fixed for 13 weeks at a time and there could be no increase or decrease in the number of weeks. When a State did change benefit periods, it could only gain or lose two weeks for the next 13-week period. Finally, the "long-term" IUR trigger mechanism determining the FSC status of a State effectively reduced the chance that FSC maximum duration would decline. 5/ Because the long-term IUR was defined as a period that continually lengthened, the chance of a State's FSC maximum duration changing diminished over time.

New FSC recipient entitlements provided:

- 14 weeks in States with an IUR of 6 percent or more or a long term IUR of 5.5 percent or more;
- 12 weeks in States with an IUR of 5 to 5.9 percent or long-term IUR of 4.5 to 5.4 percent;
- 10 weeks in States with an IUR of between 4 and 4.9 percent;
- 8 weeks in States with an IUR of less than 4 percent.

Benefits for claimants who began receiving FSC on or after April 1, 1983 were provided with five additional weeks of FSC if they had exhausted their entitlement before October 23, 1983. FSC recipients with ongoing entitlements on October 23, 1983 were provided with up to four additional weeks of FSC in States with 12 or 14 week basic FSC duration period, and up to two additional weeks of FSC for States with a 8 or 10 week FSC entitlement period.

As the FSC program was drawing to an end, Congress considered further extension of the program. However, the final decision was to allow claimants to continue to collect the remainder of their entitlements. Now new claimants could be added to the program and persons who had stopped collecting their FSC benefits before exhausting their entitlement could not collect any additional benefits. FSC benefits were paid through June of 1985.

4/ Corson, Grossman, Nicholson. An Evaluation of the Federal Supplemental Compensation Program. 1986. p. 10.

5/ The "long-term IUR" consisted of the average of weekly IURs beginning on Jan. 3, 1982, and ending with the last week of the second calendar quarter ending before the week for which the determination was made.

APPENDIX D: RECOMMENDATIONS OF THE NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION

I. BACKGROUND ON THE COMMISSION

Appointment of the National Commission on Unemployment Compensation was required by a provision of the Unemployment Compensation Amendments of 1976 (P.L. 94-566), enacted on October 20, 1976. The primary reason for creation of a commission was concern over the significant growth in unemployment benefits during the recession of 1973-1975. That recession was the worst at that time since the Great Depression of the 1930s. In combatting the downturn, Congress greatly expanded benefit availability through temporary extensions of eligibility to the long-term unemployed. It also liberalized program coverage. Concern arose about the program's growing cost, the adequacy of its funding sources, and the impact of liberalized benefits on work incentives. There was also concern about the congressional practice of legislating benefit extensions on an unplanned, emergency basis during periods of rising unemployment.

The Commission issued its report on June 30, 1980, nearly 4 years after it was authorized. Its review is the most comprehensive study of UC ever done. The Commission was chaired by Wilbur Cohen, a former Secretary of the Department of Health, Education, and Welfare under President Johnson. Other members included Representative Mary Rose Oakar and 11 persons selected from labor, business, and academic backgrounds.

A. Summary of the Commission's Recommendations

The Commission made detailed recommendations for change in all aspects of the system. The following discussion organizes the key recommendations according to the structure of policy issues used in this report.

1. Program Coverage Recommendations

- Repeal Federal restrictions on State program coverage for undocumented workers, professional athletes, and professional school employees.
- Prohibit States from denying coverage to nonprofessional school employees.
- Cover agricultural workers on the same basis as nonagricultural workers.
- Cover domestic workers whenever the employer pays at least $50 in a quarter.

2. Benefit Level Recommendations

- Exempt benefits from the U.S. income tax. (At that time, partial taxation had just begun.)
- Eliminate the Federal requirement that State benefits be offset by pension income.
- Improve Federal benefit standards, and require that a State's benefit maximum be set at or above two-thirds of a State's average weekly wage (AWW).
- Urge States to maintain benefit levels of at least 50 percent of a worker's AWW.
- Encourage States to adopt partial benefit formulas that create financial incentives to accept part-time work.
- Discourage States from requiring more than 39 weeks of work to gain entitlement to a 26-week benefit period.
- Make income-tested aid available to all eligible unemployed who exhaust their compensation and do not have jobs.

3. Benefit Duration Recommendations

- Improve the automatic availability of benefits after the regular benefit period when unemployment is high by triggering EB in a State when it's IUR hits 4.0 percent. (The trigger level was 5.0 percent at that time.)

- Permanently authorize automatically triggered temporary benefit programs providing benefits from the 39th to the 52nd weeks and from the 52nd to the 65th weeks to operate in all States during times of high national unemployment.

4. Financing Recommendations

- Increase the taxable wage base on a phased-in basis until it reaches 65 percent of the average U.S. wage in covered employment. (This policy would have set the taxable wage ceiling at $13,970 in 1986 instead of the $7,000 ceiling actually in law.)

- Cancel certain indebtedness of the States for temporary benefits and EB to reduce employer taxes.

- Tighten rules on State borrowing for future indebtedness.

- Set up a State "reinsurance" fund by earmarking 0.1 percent of taxable payroll for at least 7 years to protect States against unusually high benefit costs (defined as costs in excess of 2.7 percent of a State's taxable payroll).

- Establish a Board of Trustees for the Unemployment Trust Fund.

- Encourage States to adopt funding policies that will produce adequate reserve levels in their benefit accounts.

- Provide additional Federal funds for State administration on a one-time basis to make up for past budget cuts.

- Fully fund Federal grants to States for administrative expenditures at the levels suggested by the U.S. Department of Labor's Cost Model.

5. Training and Employment Recommendations

o Provide more public service jobs for the long-term unemployed.

B. Response to the Commission's Report

Federal and State policy initiatives have generally moved in the opposite direction from that urged by the Commission. One exception is that a number of States have taken steps to improve the financial viability of their programs, as the Commission suggested.

APPENDIX E: LIST OF ACRONYMS

AAW	Average Annual Wage
AFDC	Aid to Families with Dependent Children
AWIU	Average Weekly Insured Unemployment
AWW	Average Weekly Wage
BLS	Bureau of Labor Statistics
BPW	Base Period Wage
CBO	Congressional Budget Office
CETA	Comprehensive Employment and Training Act
CEX	Consumer Expenditure Survey
CPS	Current Population Survey
CRS	Congressional Research Service
DoL	Department of Labor (U.S.)
EB	Extended Benefits
ED	Department of Education (U.S.)
ERISA	Employee Retirement Income Security Act
ES	Employment Service
ESAA	Employment Security Administration Account
EUCA	Emergency Unemployment Compensation Act or Extended Unemployment Compensation Account
FECA	Federal Employee Compensation Account
FICA	Federal Insurance Contributions Act
FSB	Federal Supplemental Benefits
FSC	Federal Supplemental Compensation
FUA	Federal Unemployment Account
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAO	General Accounting Office
GNP	Gross National Product
HQW	High Quarter Wage
ICESA	Interstate Conference of Employment Security Agencies
IRA	Individual Retirement Account
ITA	Individual Training Account
IUR	Insured Unemployment Rate
JTPA	Job Training Partnership Act
MPR	Mathematica Policy Research
MPUs	Minutes per Unit
NAB	National Alliance of Business
NBER	National Bureau of Economic Research
NCEP	National Commission for Employment Policy
NGA	National Governor's Association
NLS	National Longitudinal Study
OBRA	Omnibus Budget Reconciliation Act
OMB	Office of Management and Budget

OTA	Office of Technology Assessment
PEP	Productive Employment Program
PIC	Private Industry Council
PSID	Panel Study on Income Dynamics
SIPP	Survey of Income and Program Participation
SUA	Special Unemployment Assistance Program
TAA	Trade Adjustment Assistance
TEFRA	Tax Equity and Fiscal Responsibility Act
TEUC	Temporary Extended Unemployment Act
TJTC	Targeted Jobs Tax Credit
TRA	Trade Readjustment Allowance
TUC	Temporary Unemployment Compensation Act
TUR	Total Unemployment Rate
UC	Unemployment Compensation
UCFE	Unemployment Compensation for Federal Workers
UCX	Unemployment Compensation for Ex-Service Members
UI	Unemployment Insurance
UIS	Unemployment Insurance Service
WBA	Weekly Benefit Amount

APPENDIX F: GLOSSARY

Annual Wage Maintenance Rate: Annual earnings plus UC benefits of a worker divided by the worker's annual earnings with no unemployment. Is an annual measure of the effects of a spell of unemployment.

Average Annual Wage (AAW): Total wages earned in covered employment in a State divided by the total number of people employed in covered jobs in that State during a 12-month time period.

Average Weekly Insured Unemployment (AWIU): The volume of unemployment claims filed per week. Funds requested to cover the cost of processing the AWIU take the form of "base funds" or "contingency funds." The President's annual budget sets forth estimates of national employment in terms of the AWIU.

Average Weekly Wage (AWW): The average weekly wage over a 12-month period for all jobs covered by UC in a particular State.

Base Funds: An amount allocated at the beginning of the fiscal year to each State for UC administrative costs, regardless of the level of unemployment in the State. The current (FY 1989) base equals the amount of resources needed to process an average weekly volume nationwide of 1.8 million unemployment claims per year.

Base Period: A recent 1-year period defined as the first four quarters of the last five completed calendar quarters preceding the filing of a claim for UC benefits.

Base Period Employer: An employer of an individual claimant during the State-specified base period used to determine the amount and duration of the individual's UC benefit payments. Most States require employment in at least two of the five calendar quarters during the base period.

Base Period Wage (BPW): In order to qualify for UC benefits, a claimant must have earned a certain amount of wages during the base period. Qualifying wages vary widely among States and are one of the criteria used to determine the weekly benefit amount (WBA).

Benefit Adequacy: The extent to which benefits equal some absolute measure of need, such as amounts normally spent on necessities, or some relative measure of need, such as the level of the worker's average wage.

Benefit/Cost Rate: One of the criteria used when determining whether or not a State is entitled to the full 5.4 percent FUTA tax credit. The benefit/cost rate is determined by dividing the amount of UC benefits paid by the amount of taxable wages for a specific time period.

Benefit Duration/Benefit Period: The length of time a recipient is eligible to receive UC benefits. The benefit period is dependent upon the amount of base period wages earned. Most States pay regular benefits for a maximum duration of 26 weeks. Where activated, the EB program provides an additional 13 weeks of benefits.

Chargeable Employer: An employer who remits unemployment taxes to the State UC system account in the Federal Unemployment Trust Fund. The employer's account is "charged" for the amount of UC benefits paid to an individual who was a former employee.

Claims Ratio: The ratio of the number of UC claims filed (new and ongoing claims) to the number of unemployed. The claims ratio is a measure of the proportion of unemployed receiving benefits from regular State UC programs. See also jobless beneficiary rate and IUR/TUR ratio, a less direct measure.

Comprehensive Employment and Training Act (CETA): An expired Federal program that provided public service employment, training, and related services to economically disadvantaged individuals. A separate title existed exclusively for disadvantaged youth. CETA was replaced by the Job Training Partnership Act (JTPA) in 1982.

Contingency Funds: An amount (in addition to base funds) allocated to each State to pay for administrative expenses due to claims that exceed the workload projection used to determine the amount of base funding. For FY 1989, the contingency funding request is based on the cost of processing an additional 0.2 million weeks of unemployment nationwide.

Cost Model Management System: A DoL computer model that was used to determine the administrative (base level) funding for a State's UC program. The model is based on a system that measures the "minutes per unit" it takes to complete the various functions involved in processing and paying unemployment benefit claims.

Countercyclical Policy: The use of Government fiscal and monetary policies to neutralize fluctuations in the economy.

Covered Employment: FUTA defines certain employers that States must cover in order to qualify for the 5.4 percent FUTA tax credit. States then have the option of extending coverage to types of employment beyond those mandated by FUTA.

Customized Training: An economic tool used to recruit industry to States by guaranteeing the availability of workers trained specifically for a particular employer.

Discouraged Workers: Workers who want a job but think they cannot get one because of labor market factors or personal factors. Discouraged workers are excluded from counts of the unemployed and the labor force.

Dislocated Workers: Generally characterized as experienced workers permanently displaced from the labor force due to a decline in the industry, occupation, or region where they were previously employed. Dislocated workers, who often possess skills that have become obsolete, are potentially eligible for training and related employment assistance under title III of JTPA.

Disqualification: Under certain circumstances, Federal law requires that UC benefits be either postponed for a prescribed period of time, reduced, or denied altogether.

Employment Security Administration Account (ESAA): The fund within the Federal Unemployment Trust Fund from which the administrative expenses of the UC program are paid. Administrative expenses include activity related to processing claims and paying benefits.

Employment Service (ES): A program financed largely by the Federal Government but designed and administered by the States. The ES program was originally created to serve as a public labor exchange for people seeking work and employers seeking workers. The program serves as an adjunct to the UC system and has grown to assume an increasing variety of unemployment-related tasks and responsibilities in addition to job placement and referral.

Exhaustee: An exhaustee is a prior UC beneficiary who is no longer eligible for benefits because of unemployment that has persisted longer than the individual's benefit period.

Experience Rating: Used by States to determine the tax rate that applies to an employer's taxable payroll. The more a firm's former employees have drawn UC benefits in the past, the higher the tax rate that applies for that firm.

Extended Benefits (EB): Benefits available under certain circumstances to jobless individuals who have exhausted their regular benefits. EB are available only in States with high insured unemployment rates. They equal the regular weekly benefit amount and are payable for up to one-half the duration of the regular benefit period.

Extended Unemployment Compensation Account (EUCA): The fund within the Federal Unemployment Trust Fund from which the 50-percent Federal share of the EB program is paid.

Federal Employee Compensation Account (FECA): The fund within the Federal Unemployment Trust Fund that pays unemployment benefits to Federal civilian and military personnel.

Federal Supplemental Benefits (FSB): A program created in response to the recession of 1974-1975. The FSB extended UC benefits for an additional 26 weeks for recipients who had exhausted their regular benefits and EB. FSB expired on October 31, 1977.

Federal Supplemental Compensation (FSC): A program created in response to the 1981-1982 recession to provide supplemental UC benefits to recipients who exhausted their regular benefits and EB for a length of time that varied depending upon the unemployment condition within the State. Similar to FSB, the FSC expired on June 30, 1985.

Federal Unemployment Account (FUA): The fund within the Federal Unemployment Trust Fund from which loans to insolvent State UC programs are made.

Federal Unemployment Tax Act (FUTA): The Act establishing the provisions by which an employer must pay tax on the first $7,000 of wages paid annually to each employee in covered employment. The gross FUTA tax is currently 6.2 percent, although States are eligible for a 5.4 percent credit. The net FUTA tax is therefore 0.8 percent, consisting of a permanent tax rate of 0.6 percent and a 0.2 percent temporary surtax. FUTA tax revenue is credited to the ESAA, EUCA, and the FUA.

Federal Unemployment Tax Act (FUTA) Surtax: The 0.2 percent increase in the FUTA tax legislated in 1976. Originally scheduled to end when its revenue repaid loans to EUCA, the surtax was extended in 1987 until 1990. Proceeds now go to EUCA and FUA, evenly divided.

Federal Unemployment Tax Credit: If States meet certain Federal requirements and have no delinquent loans, they are eligible for a 5.4 percent Federal credit against the gross FUTA tax rate of 6.2 percent.

Federal Unemployment Trust Fund: The Trust Fund contains 59 accounts where various tax revenues are credited and from which unemployment benefits and administrative expenses are paid. These accounts are the 53 State UC programs, the Railroad Unemployment Insurance Account, the Railroad Administration Account, and four Federal accounts: ESAA, EUCA, FUA, and FECA.

Fiscal Policy: Government decisions regarding spending, taxing, and borrowing activity.

Gross National Product (GNP): The value of all goods and services.

High Cost Multiple: The reserve ratio amount divided by the high cost rate. (Sometimes called the "reserve ratio multiple.") Used as a measure of how adequate a State's funding for its unemployment program is. The higher the multiple, the higher a State's fund balance is relative to its taxable payroll.

High Cost Rate: A State's unemployment benefit payments divided by its covered payroll for the 12 consecutive months since January 1958 in which this quotient is at its highest level. The high cost rate is the denominator of the equation used to calculate a State's high cost multiple.

High Quarter Wage (HQW): The quarter in the claimant's base period when the highest wage was earned. High quarter wages are one of the criteria used to determine the WBA.

Individual Training Account (ITA): A proposed private sector program in which workers and their employers would make tax-deductible contributions to a special account in the employees' names. The funds could be withdrawn tax-free for use in retraining if a worker becomes dislocated.

Insured Unemployment Rate (IUR): The ratio of unemployed workers receiving regular UC benefits to the total number of employed workers in covered employment.

IUR/TUR Ratio: The ratio of the insured unemployment rate to the total unemployment rate. Used as a measure of the availability of UC benefits. A declining ratio indicates a widening gap in UC participation.

Job Training Partnership Act (JTPA): A Federal program providing training to unemployed participants under title II-A. Most services are provided to the economically disadvantaged, with a special emphasis on disadvantaged youth. A separate title, title III, exists to train dislocated workers who are permanently jobless, although not necessarily economically disadvantaged. JTPA services under both titles include classroom skills training and remedial education activities, job search assistance, on-the-job-training, and some supportive services and needs-based training allowances.

Jobless Beneficiary Rate: A measure used to describe the proportion of the unemployed who receive benefits. The jobless beneficiary rate is the ratio of the number of UC weeks claimed to the number of people unemployed.

Labor Force: The number of people who are working for pay or profit, or who are unemployed and are actively engaged in seeking work. Persons who are under age 16, or are institutionalized in prisons, mental institutions, and the like are excluded from the labor force. Separate data are kept on the civilian versus the total labor force; the latter includes resident military personnel who are excluded in the civilian count. This report concerns itself primarily with civilian labor force participation.

Low Quarter Workload: Used to project the expected minimum UC workload of a State, thereby determining the State's base funding allocation.

Means-Tested: Program eligibility and/or size of benefits based on income level, usually accompanied by an asset limit. The UC program is not a means-tested program.

Monetary Policy: Government policy regarding the supply of money and interest rates.

National Commission on Unemployment Compensation: A Commission created in 1976 to address concerns regarding the UC program's growing cost, the adequacy of funding sources, its responsiveness to the impact of recessions, and the impact of benefit payments on work incentives. The Commission issued its final report of recommendations and findings in 1980.

National Trigger: The threshold, based on a State's insured unemployment rate, above which the EB program was authorized in that State. The national trigger was eliminated by an amendment in the Omnibus Budget Reconciliation Act of 1981.

Pension Offset: A requirement, in certain cases, that States offset or reduce an individual's UC benefits by some or all of the income received in the form of a pension or other retirement benefit, including social security. Most military personnel are excluded from pension offset provisions.

Performance Standards (in JTPA): National standards imposed on locally administered JTPA programs for placement rates and cost per placement, plus additional standards specifically for services to youth and adult welfare recipients. Training providers are not reimbursed for their full costs until training is completed and the agreed-upon number of participants are placed in jobs.

Private Industry Council (PIC): Private Industry Councils are networks of private employers and others interested in job training programs. In conjunction with elected officials, PICs assist in the administration of the JTPA program.

Productive Employment Program (PEP): A proposed program in which workers would receive a voucher containing a wage subsidy for presentation to prospective employers. The weekly subsidy would equal one-third of a worker's regular WBA for a duration of twice as long as the UC benefit period. PEP is currently under consideration as a pilot project in California.

Qualified Employment: To qualify for UC benefits, a claimant must have recently worked for an employer covered under a State's UC system.

Reemployment Bonus (New Jersey Project): A component of a demonstration project for dislocated workers in New Jersey that includes monetary bonuses if the UC beneficiaries start work the week they are assessed or in the next 2 weeks. The potential bonus is paid to the individual and is reduced by 10 percent for each subsequent week of unemployment until it is phased out altogether.

Replacement Rate: The UC monetary benefit received while unemployed divided by the worker's pre-unemployment wage during an equivalent time period.

Reserve Ratio: A State's UC Trust fund assets at a point in time divided by the State's covered payroll for the prior 12 months. The reserve ratio is the numerator of the equation used to calculate the State's high cost multiple.

Self-Employment Demonstrations: The use of UC funds otherwise payable to recipients as grants to individuals who wish to become self-employed. The Secretary of Labor is currently conducting three self-employment demonstration projects in Washington, Oregon, and Massachusetts.

Skills Corporations: Corporations that provide industry-specific training through private-public partnerships. Typically they require a substantial amount of private matching funds. They originated in Massachusetts in 1981.

Stagflation: A condition of high unemployment occurring simultaneously with little economic growth and high inflation.

State Tax Rate: Employers are required to pay both Federal and State UC taxes, based on separate taxable wage bases and tax rates. The standard State tax rate is currently 5.4 percent, although State tax rates based on unemployment experience ratings can range from zero to 10.5 percent. UC benefits are paid from each State's account in the Federal Unemployment Trust Fund.

State Trigger: The threshold, based on a State's insured unemployment rate, above which the EB program is authorized in that State. The EB program activates in a State under two conditions: (1) if the State's 13-week average IUR in the most recent 13 weeks is at least 120 percent of the average of its 13-week IURs in the last 2 years for the same 13-week period and its current 13-week average IUR is at least 5.0 percent; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent.

Supplemental Unemployment Compensation Benefits: See Federal Supplemental Benefits (FSB) and Federal Supplemental Compensation (FSC).

Targeted Jobs Tax Credit (TJTC): A tax credit available to employers who hire members of certain target population groups, primarily disadvantaged youth.

Taxable Wage Base/Taxable Wages: The amount of an employee's annual wages taxed under the provisions of FUTA. The current Federal taxable wage base is $7,000. Although States have some flexibility in setting their taxable wage base, they generally have adopted a taxable wage base at least as high as the Federal level in order to qualify for the 5.4-percent FUTA tax credit.

Total Unemployment Rate (TUR): The total number of people unemployed and actively seeking employment divided by the total number of people in the labor force.

Trade Adjustment Assistance (TAA): A Federal program created in 1962 to provide workers who are dislocated due to a reduction in foreign trade barriers with cash assistance, training, and related services. Dislocated workers who are eligible under title III of JTPA are also eligible for TAA.

Trade Readjustment Allowance (TRA): Dislocated workers eligible for training and related employment services under TAA are also eligible for TRA cash benefits upon the exhaustion of their regular UC benefit period. The total length of time an individual can receive UC and TRA is 52 weeks, with workers in approved training programs eligible for up to an additional 26 weeks of benefits.

Trend GNP: Represents economic activity over time without fluctuations as if the GNP had grown at a constant rate.

Unemployment Compensation Benefits: UC benefits take the form of monetary payments made to recipients on a weekly basis for a specific duration of time while they are engaged in job search or awaiting reinstatement in a prior job. UC benefits can also include job training, counseling, or placement services.

Unemployment Compensation Program (UC): A Federal/State program that provides income maintenance support through the provision of temporary, partial wage replacement for unemployed workers meeting minimum State eligibility criteria.

Unemployment Insurance (UI): A term used interchangeably with UC.

Wage Base: See Taxable Wage Base/Taxable Wages.

Weekly Benefit Amount (WBA): The amount of UC benefits received by a recipient each week based on earnings in the recipient's base period. The WBA normally represents a fraction of an individual's average weekly wage up to a maximum level determined by each State.

Work Disincentive: The extent to which a claimant's incentive to work is diminished by the receipt of UC benefits.

Work Test: The requirement that UC beneficiaries (except those in school or in an approved training program) be available for, and actively seeking, work.

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